

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Kuwait and Gulf war:
sitting on edge of
a volcano, Page 19

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World News

Business Summary

Sinhalese 'shoot dead' ruling party supporters

Sri Lankan police blamed the banned Sinhalese People's Liberation Front for shooting dead two supporters of President J. Jayawardene's ruling National Party.

Meanwhile two Tamil guerrillas were killed by their own landmine and another thought by police to have planted a Colombo car bomb which killed 32, committed suicide in custody by swallowing a cyanide capsule hidden in the seam of his trousers.

Summit negotiations
US and Soviet arms negotiators met to discuss differences that threaten the pact due to be signed at the superpower summit in Washington on December 7 to 12. Page 3

Yugoslav spree
Yugoslavs rushed to buy essentials ranging from bread to petrol before a government anti-inflation programme added 18 per cent to prices then froze wages until the end of June 1988. Page 6

Dhaka strike call
Bangladeshi opposition leaders called for two more days of strikes in their campaign to force the resignation of President Ershad.

Hungary-EC talks
Hungarian leader János Kádár arrived in Brussels to meet EC and Belgian officials including Jacques Delors, president of the EC executive committee.

Botha visits troops
President P. W. Botha visited South African troops in Angola to boost morale. He and several ministers made their trip "very recently" said Defence Minister Gen Magnus Malan. Page 5

Candidates attacked
South Korean opposition presidential candidates were attacked with stones and eggs during rallies. Page 6

Border dispute
China and India began talks aimed at resolving a border dispute that has soured relations since 1962.

Hoechst plant shut
Officials shut down a Hoechst Celanese chemical plant in Texas after three died in explosions.

Kenyan students riot
Students rioted at the University of Nairobi, Kenya, in protest at the arrest of five of their leaders.

IRA support 'sinful'
Irish Cardinal Tomás O'Flaherty instructed priests to tell their congregations it was a sin to support organisations committed to violence.

Communists cut link
The Communist Party of Great Britain cut its links with the Morning Star newspaper which, officials said, had been hijacked by hardliners.

Czech in Moscow
Czechoslovak Prime Minister Lubomír Štrougal arrived in Moscow for what Soviet news agency Tass described as a working visit.

Spain-UK trade visit
Spain's Industry Minister Luis Carlos Rodríguez began a two-day visit to the UK today to promote investment in his country. Page 3

Crash kills three
Three died when a train was derailed on a bridge in northern Spain, the second lethal railway accident in the region in three days.

Torch journey begins
The Olympic torch, lit by the rays of the sun, began a three-month journey to the Winter Games in Calgary, Canada.

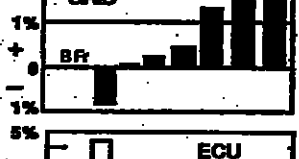
EC to study widescale overhaul of VAT

CONVENTIONAL European Commission plans to set common rates of value added tax and other indirect taxes across the Community by a meeting of sceptical finance ministers. Page 6

EUROPEAN Monetary System
Pressure eased to some extent against the weaker members of the EMS last week. This reflected an improvement by the US dollar, notably against the D-Mark, amid hopes that cuts would be agreed in the US budget deficit. This helped underpin the US unit and accelerated a tendency to take profits as the dollar touched record lows at the beginning of the week.

Calls for a realignment in currency values were seen as premature and recent moves to support the weaker currencies added further weight to the desire to maintain existing parties. The French central bank added liquidity to the money market on Friday but kept its intervention rate unchanged at 8 1/2 per cent, having raised it on November 5 from 7 1/2 per cent.

EMS 13 November 1987



The chart shows the two conventional European Monetary System exchange rates. The lower chart shows the cross-rates from which no currency (except the DM) may move by more than 5% per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), itself derived from a basket of European currencies.

NORWEGIAN oil minister Mr. Amundsen said that his government will not agree to the replacement of top management at Statoil, despite fresh evidence of serious financial problems at the state-owned oil company. Page 23

RAIL CORPORATION, US banking company, is to end its drinks car joint venture in Berlin and is buying P.M. to Swedish partner, Daimler (D15.1m) to take the loss-making plant off its hands. Page 23

PLATINUM demand will exceed supplies of newly-mined metal this year for the third successive year, forecasts refiner and marketer Johnson Matthey. Page 20

BANQUE INDOSUEZ, main banking subsidiary of the recently privatised Suez group, is to take control of the Paris stock broker Cheuvreux de Virieu. Page 23

AIRBUS Industrie, European airliner group, hopes to become "profitable and self-sustaining by the mid-1990s". Page 20

SULZER BROTHERS, Swiss engineering group, is conducting negotiations with unnamed interests with a view to the sale of between 30 and 40 per cent of its voting capital. Page 23

RANG & OLUFSEN, Danish audio equipment and television manufacturer, has dismissed 350 workers in its Jutland factories, blaming the move on the collapse in world stock markets. Page 23

AIIB last week responded to mounting concerns about Euro-bond price manipulation with proposals for tougher sanctions and new rules to curtail price squeezing. Page 21

CANAL PLUS, Europe's only pay television channel, plans to go ahead with its flotation on November 26 on the French second market. Page 23

Reagan confident of reaching budget accord this week

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

CONGRESSIONAL NEGOTIATORS were optimistic yesterday that agreement would be reached with the White House this week on a package aimed at cutting the federal budget deficit by \$80bn over the next two years.

This followed President Ronald Reagan's prediction at the weekend that agreement was near on a package.

His statement was followed by optimistic comments by congressional negotiators in the budget deficit reduction negotiations which are entering their fourth week.

However, it is also recognised that the package being considered may make little immediate impact on the deficit in fiscal 1988.

It could be some weeks before Congress completes any budget agreement, even if a broad accord is reached by Thursday.

The negotiators are attempting to avoid automatic spending cuts which would come into effect the following day.

There is also the danger that some on Capitol Hill will try to change the deficit reduction package even after the White House and Congressional leadership agree its broad outlines.

Mr Reagan said in his regular weekend radio address to the nation that the budget summit was seeking "to strike a bargain that would cut some \$30bn from the Federal deficit in 1988 and as much as \$50bn in 1989".

His statement was the most positive he has made on the budget summit and is being seen as a tacit endorsement of the broad outlines of the package which the negotiators are working on.

This includes a \$10bn-\$12bn tax increase which it had been feared he would reject.

However, Mr Dan Rostenkowski, a Democrat who chairs the House Ways and Means Committee which has the constitutional responsibility for originating tax legislation, warned yesterday that there was still some way to go before an agreement could be reached and implemented.

By Friday of last week, after almost breaking down the previous day, the negotiators had moved a long way towards a deficit reduction package comprising \$10bn-\$12bn of tax increases covering such items as an extension of the telephone tax but not personal or corporate tax rates.

A further \$5bn of domestic savings on "entitlements" programmes, which provide benefits mandated by law such as Medicare, are also being discussed.

A major question still to be resolved is whether benefits under social security programmes for the aged should be trimmed in order to reach the \$50bn mark.

Some argue that entitlements must be reduced as a symbolic demonstration of Washington's longer term commitment to serious budget reductions.

Another key issue to be resolved is how to enforce the spending cuts.

Conservative Republicans are arguing that a change in taxes would have a long-term effect but that some reductions in spending would need to be renewed every year.

It is recognised, too, that the outline budget package will probably not lead to an actual reduction of the 1988 budget deficit below the \$148bn reached in fiscal 1987. Without any budget cuts the 1988 deficit seems set to reach \$180bn-\$190bn even on current, probably optimistic, economic forecasts.

It remains unclear what the \$23bn-\$30bn of 1988 deficit reduction under discussion at the budget summit would mean in real terms. A minimum of \$23bn seems assured because, if no agreement is reached by Friday, the revised Gramm-Rudman-Hollings budget reform law will automatically come into effect triggering spending reductions of \$23bn which would hit the Defence Department particularly hard.

Most uncertain, however, is the reaction of the financial markets to a package.

EC plans 'no grow' areas to reduce cereal output

BY TIM DICKSON IN BRUSSELS

A **CONTROVERSIAL** new plan to cut cereal production in Europe will be outlined today by Mr Frans Andriessen, the EC's Agriculture Commissioner.

Officials in Brussels were last night still working on details of the scheme, under which Community farmers would be invited to give up a "set aside" part of their land in return for substantial compensation payments.

The plan to cut cereal production, which has been widely adopted in the US, albeit with mixed results, is considered by several EC member states and by many Brussels observers to be crucial to the outcome of key political negotiations on the future of the Common Agricultural Policy (CAP) which begins in Brussels today.

Recent estimates suggest that EC agricultural support will cost more than Ecu27bn (\$35bn) in 1987, against a budgeted Ecu25bn. The fall in the dollar, however, is certain to make matters worse.

At issue, however, is not just another attempt to rein back the EC's spiralling agricultural spending - exacerbated in recent weeks by the falling dollar - but the ultimate fate of a request by Mr Jacques Delors, Commission President, for a substantial increase in the EC's own resources.

It is now widely accepted that EC heads of state and notably Mrs Margaret Thatcher, British Prime Minister, will refuse to accede to Mr Delors' plan at next month's summit in Copenhagen unless farm ministers can first agree on effective measures to keep agricultural spending under control.

Denmark, currently in the chair of the Council of Agriculture Ministers, is expected to pull out all the stops in an effort to persuade the 12 member states to adopt the Commission's so-called "budget stabiliser" proposals.

They comprise corrective measures such as guaranteed price cuts and subsidy reductions, which would be triggered if production of a wide range of agricultural commodities exceeded or looked like exceeding specific output targets. The measures cover sheepmeat, fine, fruit and vegetable tobacco, milk and oleseeds. But by far the most important and most difficult negotiation is likely to centre on cereals.

The latest compromise from the Danish "presidency" departs little from the Commission's original proposals and was described over the weekend as having "put flesh on the original bones". The suggestion is for an annual cereals production "threshold" of 156m tonnes with cuts in prices and increases in the so-called co-responsibility levy (a tax on producers) of up to 6 per cent in the first year and 7 1/2 per cent in the second two years if this target is exceeded.

As the proposal stands these adjustments would be made in mid-September on the basis of a harvest forecast. The price cuts would be applied ahead of the

Continued on Page 20

Split looms in Bonn over need for more aggressive tax cuts

BY DAVID MARSH IN BONN

A **SPLIT** is opening up within the West German Government over the need for fresh tax cuts in reaction to growing domestic and international pressure to stimulate the economy.

Mr Hans-Dietrich Genscher, the Foreign Minister, appears to be leading a behind-the-scenes bid by ministers and officials to persuade Mr Gerhard Stoltenberg, the Finance Minister, to take a more relaxed fiscal policy line.

Mr Stoltenberg confirmed on Friday that Bonn was prepared if necessary to allow the federal budget deficit to expand next year beyond the planned level of just under DM30bn (\$18bn) to support the economy.

This indicates that the Government has decided in principle neither to raise consumer taxes nor to restrain further budgetary spending if an economic slowdown next year pushes up the public sector deficit.

This decision follows a meeting last Thursday between Mr Stoltenberg, Mr Martin Bangemann, the Economics Minister, and Chancellor Helmut Kohl. However, it stops well short of

any commitment to fresh expansionary policy measures.

Mr Stoltenberg, with the support of Mr Bangemann, is pushing out any question of advancing to 1989 planned tax cuts of a net DM20bn planned for January 1990. Tax cuts of DM14bn are already being pushed into effect in January 1988.

However, Mr Genscher in private conversations is believed to have backed up pleas for more aggressive tax cutting to offset the deflationary effect of likely cutbacks in the US budget deficit.

The letter, leaked in Bonn on Wednesday, was written on Monday after a conversation between Mr Genscher and Mr Otto Schlecht, State Secretary in the Economics Ministry.

Mr Stoltenberg on Friday argued that pressures from the US and elsewhere for faster implementation of the tax cuts

did not take account of the extreme political difficulties of pushing the measures through the Bundesrat (federal council), the upper house of parliament.

The Bundesrat has veto power over tax legislation. The council represents the federal states (Länder), several of which have already strongly criticised the 1990 tax plans on the grounds that it will cut their tax income at a time when they are facing a sharp public spending squeeze.

Following discussions last week in the budgetary committee of the Bundesrat (federal assembly), the 1988 budget deficit is officially projected at DM29.5bn.

Bonn government officials, however, admit that the 1988 projection underestimates by several billion D-marks the likely figure. This is because the projection fails to take into account factors ranging from lower tax receipts to higher subsidies, which are likely to raise the deficit next year.

Sarney suffers election date setback

By Ivo Dawnya in Rio de Janeiro

PRESIDENT JOSE Sarney of Brazil yesterday suffered his most serious political defeat to date when the key committee drafting a new constitution voted to cut his term of office to four years - setting elections for next year.

The vote still has to be ratified by Congress but will fuel the widely-held view that only direct presidential elections can help the country out of its acute political and economic crises.

There is now a growing conviction that elections are inevitable in 1988.

This decision is a critical setback to the already embattled President. Last month the committee voted to reduce his powers by introducing a parliamentary system of government.

Mr Sarney's managers in the Congress had promised that the move to cut his mandate from five to four years would be opposed by 60 votes in the 59-member committee. Some supporters of a four-year term had accused the Administration of using federal finances and favours to win the necessary support.

But the final outcome was a cliffhanger, ending, amid rowdy scenes of cheering and banner waving, with 45 votes to 45 for presidential elections next year.

Senator Afonso Arinos, who chaired the session, declared the highly-charged atmosphere as "a beautiful democratic spectacle for Latin America".

For Mr Sarney, the outlook is bleak. While many decisions of the left-weighted committee are expected to be reversed by centrist in Congress, there is no centre-right consensus on when elections should be held.

Many analysts commented prior to the vote that if Mr Sarney lost, it would signal the start of a presidential election campaign.

Some politicians are arguing that Brazil's situation is now so critical that elections cannot wait until November - the traditional election season - but must be brought forward to within a few months of the new constitution being ratified.

The plenary session of the Constitutional Assembly is due to start work next week, but may not complete voting before April.

Goria set to return after Italian shuffle

BY JOHN WYLES IN ROME

MR Giovanni Goria, the Italian Christian Democrat Prime Minister who resigned at the weekend, looks likely to stay in office at the head of a reshuffled coalition government after President Francesco Cossiga completes hasty consultations among party leaders today.

Although last-minute surprises can never be ruled out in the feverish atmosphere of an Italian political crisis, Mr Goria's return offers the easy and speedy solution all the main parties say they are looking for following the Liberal Party's decision to quit the five-party coalition.

But no settlement could be found in time to avoid the cancellation of President Cossiga's state visit to Britain, which was due to start tomorrow. A statement issued on Saturday night said that traditional practice prevented the President from travelling abroad during a political crisis. The decision had been communicated to the British Government and to Queen Elizabeth "with deep regret".

Yesterday afternoon, the President began the formal consultations which follow every prime ministerial resignation. These included meetings with his three surviving predecessors (Saragat, Leone and Pertini) and the presidents of the Senate and the Camera, the lower house of parliament.

The President did not formally accept Mr Goria's resignation on Saturday, which leaves him free to send the Government, Italy's 48th since the Second World War, back for a parliamentary vote of confidence.

Mr Goria's reassembled coalition would be minus the small Liberal Party, whose decision last Friday night to quit the Government and to trigger a crisis took the other governing parties completely by surprise. After a summit of party leaders on Friday morning they thought that they had produced sufficient undertakings to halt the Liberal defection.

But the tiny party stuck to its guns and insisted it could not accept the budget revision adopted last week which shelved adjustments in tax rates so as to bring down the government deficit from L109,600bn (\$87bn) to L103,600bn. With just 2.1 per cent of the general election vote last June, the Liberals held the defence portfolio and provided three junior ministers.

Mr Renato Altissimo, the Liberal Party secretary, said in a weekend newspaper interview, that the other governing parties "had simply wanted to ignore" his party's insistence that the tax changes must be honoured.

The 69-year-old veteran holds the record for heading two of Italy's shortest governments - nine days in 1972 and 11 days in 1979. Mr Goria's 109-day tenure occupies only 10th place in the brevity league.



Giovanni Goria: Likely to stay

They were part of the 109-day coalition's policy programme and the decision to postpone them had already sparked a general strike call from the unions for November 26. Mr Altissimo also said that the other party leaders had failed on Friday to provide a convincing response to the Liberals' demands for tougher spending cuts.

Although most observers see the Liberal move as an attempt to exploit the considerable opposition to the budget in both business and trade unions, Mr Giacinto De Mita, the Christian Democrat leader, called the crisis "useless and inexplicable". He is expected to urge the reappointment of Mr Goria providing he does not run into a veto from Mr Bettino Craxi, the Socialist Party secretary.

In other circumstances, Mr Craxi might have tried to force Mr De Mita into the premiership so as to line himself up for the top job in the second half of the legislature elected in June. However, Mr Craxi wants to avoid prolonging the crisis so that the parliament can press ahead with passing the necessary legislation on reforming the magistracy in the wake of last weekend's referendum on the issue.

If there is disagreement about returning Mr Goria, then the fall-back nominee could be Mr Giulio Andreotti, the Foreign Minister and most senior Christian Democrat politician. Mr Andreotti has raised the flag of revolt against renewing Mr De Mita's mandate as party secretary and might welcome a sixth spell as Prime Minister in return for allowing his leader a quieter life.

The 69-year-old veteran holds the record for heading two of Italy's shortest governments - nine days in 1972 and 11 days in 1979. Mr Goria's 109-day tenure occupies only 10th place in the brevity league.

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Syrians tighten hold after Beirut hospital blast

BY NORA BOUSTANY IN BEIRUT

SYRIAN troops tightened their grip on West Beirut yesterday after a bomb exploded in one of the Middle East's best-known hospitals, killing seven people and wounding 31.

In the second such attack against a public building in three days, a woman on Saturday passed through the routine security check of the American University hospital with a box of chocolates. After walking past the main lifts she burst into the cashier and administrative ground-floor section and sat at a bench, the box in her lap. Within minutes, the ground was littered with bodies.

The blast, at peak visiting hour, followed a similar explosion when a bomb, concealed in a suitcase and carried by a woman, shattered the glass in the entrance of Beirut's international airport, killing five people and wounding 73.

The airport, Lebanon's only link to the outside world, and the hospital are vital to the Moslem-dominated sector of Beirut and are both protected by Syrian soldiers.

The 10-storey hospital is one of the last remaining large American institutions still functioning in West Beirut. The blast, yet another setback to Syrian

authority, stunned residents in a city where violence has so far spared hospitals.

On the day of the airport bombing, a French engineer was gunned down by unknown assailants as he was driving along the coastal highway of Maameitein, north of Beirut in the heart of the Christian-controlled mainland. The shooting of 48-year-old Mr Richard Gempel, employed at a local factory which manufactures arak, a local alcoholic beverage composed mainly of fermented grapejuice and raisins, was the second attack on Frenchmen in the Christian sector. On October 29, three French policemen, shopping in the mainly Armenian Dora district, were shot and killed. The killing of the men, who were in charge of security at the French embassy annex in East Beirut, was seen as the beginning of a campaign to discredit the ability of Christians to maintain stability and harmony in their areas.

Pro-Iranian fundamentalist groups in West Beirut are likely perpetrators of attacks against American institutions, but the undercurrent of Syrian and Christian Lebanese hostility is not to be ruled out as the cause of the bombings.

Mr Max Kampelmacher, chief US negotiator, said after arriving that his talks with the Soviet negotiator, Mr Yuri Vorontsov, would focus on agreeing verification measures.

"There are a few issues which remain and I'm hoping that Ambassador Vorontsov and I can further help to narrow differences between us. Maybe resolve them all, maybe not," he said.

The talks started at the Soviet diplomatic mission and will last at least until tomorrow.

Mr George Shultz, US Secretary of State, said the Soviet Foreign Minister, Mr Eduard Shevardnadze, are awaiting the outcome. Should the negotiators fail, the foreign ministers will hold their third meeting on arms control since September.

Bid to iron out arms talks obstacles

TOP US and Soviet negotiators started talks in Geneva yesterday to overcome last-minute obstacles that threaten a pact scrapping intermediate-range nuclear missiles, due to be signed at a superpower summit in three weeks, Reuters reports.

Mr Max Kampelmacher, chief US negotiator, said after arriving that his talks with the Soviet negotiator, Mr Yuri Vorontsov, would focus on agreeing verification measures.

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A news black-out has lowered the political temperature, Andrew Whitley reports

TV strike leaves Israelis in the dark

A SIX-WEEK-old strike by journalists, closing down Israel's state-owned broadcasting organisation, has left news-addicted Israelis groping to adjust to black television screens and silent radio sets.

Many say they are relieved at the let-up in the intense barrage of news. The usually highly charged political temperature has dropped a good 10 degrees since the strike began. The weekly government crises of the past appear to have vanished into thin air.

At least half the coalition government - the right-wing half led by Prime Minister Yitzhak Shamir - is secretly delighted at the stoppage, and is in no perceptible hurry to see the broadcasters back in action.

"Shamir knows he doesn't benefit from television exposure, whereas Peres does," said Dr Israel Peleg, a member of the Israel Broadcasting Authority's Board of Governors, referring to the Prime Minister's Labour Party rival. "So he prefers to see it off the air."

Likud, like the Conservatives in Britain, has long complained about left-wing bias within the highly politicised state broadcasting organisation. Mr Uri Porat, the embattled broadcasting chief at the centre of the storm, may have served in the past as media adviser to the former Likud Prime Minister Mr Menachem Begin, but many of his journalists are staunch Labour supporters.

"We can live without it," shrugs the Prime Minister, as fears grow that the deadlock in the strike - nominally over pay and manning levels - might compel the Government to order a long-term shutdown for the radio and television stations. On their eventual return, the suspicion among the strikers is that the Government would like to see broadcasting more under its own thumb than it is today.

Filling the gap, to some extent, is the cheap and cheerful Army Radio. Run by enthusiastic young amateurs doing their military service, the station has responded by expanding its own widely-listened-to news bulletins.

The soldier-broadcasters have a well-deserved reputation for fast and reliable reporting. But they cannot buck the authorities over sensitive issues, in the way that the powerful Israel Television Corporation was often prepared to do. Its nine o'clock evening news programme, Mabat, used to be required viewing for almost all adults.

Helping lessen the public's sense of television deprivation are pilot broadcasts from the recently established Channel Two, intended as a commercially financed alternative to the state monopoly.

Video clubs meanwhile, report a sharp increase in demand from Israelis said to be high in the world league of video-player ownership. Much to the annoyance of the authorities, pirate



Yitzhak Shamir: delighted

neighbourhood cable networks are also springing up in several towns.

Together with the public's apparent indifference to their fate, these improvised responses to the stoppage - the longest ever at the state broadcasting network - have left the striking journalists feeling bitter and betrayed.

"People are very happy. They no longer have to look at their own self-reflection every day on television," said Mr Gideon Sellinger, a senior radio journalist. What is worse, the Israeli public may even be weaning itself off its lifelong addiction to the

drama of fast-changing news for good. "It's like giving up smoking," explained Mr Sellinger. "The first few days are terrible. Then gradually you learn to do without it."

Even the IBA's Governors concede that the journalists have a strong case in their demand for salary parity with the written media. Before tax and other deductions, a top television reporter's basic salary is less than Sh 1,000 (\$376) a month, barely enough to get by on. His counterpart on, say, the mass circulation Yediot Ahrot daily can earn two and a half times this amount.

But in return, the journalists' union is refusing to accept the large-scale layoffs everyone else agrees are necessary to restore the network to a sound financial footing. Out of 2,200 salaried employees of the IBA, nearly 700 are classified as journalists.

What is needed at the IBA, though, is not tinkering at the edges but a wholesale reorganisation from top to bottom, argues Dr Peleg, whose doctorate from Glasgow University is in mass communication.

Deriding the makeshift way in which the organisation's budget is put together from year to year - for 1987-8 it is set at Sh 128m - he points out that spending on programmes represents only 9 per cent of the total. The rest of the budget is consumed by overheads, including salaries. Despite everything, the way

might still be open for reform were it not for two road blocks thrown in the path of the long-expected journalists' strike. One is a new law designed to enforce respect for public spending ceilings: wage rises above the nationally agreed level for the public sector have to be compensated for through reductions in the payroll.

The second obstacle is the public sector wage agreement itself, recently hammered out between the Treasury and the Histadrut, the labour federation. The journalists' union is one of the few not affiliated to the giant federation; and neither Mr Yisrael Kessar, the Histadrut boss, nor Mr Moshe Nissim, Israel's Finance Minister, are prepared to allow a group they regard as having become too big for its boots to destroy their painfully achieved pact.

Not a small element in allowing the strike to drift along without resolution has been the antagonism many ordinary Israelis, especially those of Middle Eastern background, feel towards the Ashkenazy (Western origin) presenters and pundits who are seen as having lorded it for far too long over the small screen.

So, if some of the best-known personalities in the country are now having to scrape around for any work, no matter how demeaning, because they have not been paid for over a month, the satisfaction in many homes is little disguised.

Yeltsin sacked from two more Moscow posts

MR BORIS YELTSIN, the ousted former head of the Communist Party in Moscow, has lost two further executive posts in the city administration, continuing his rapid fall, Reuters reports from Moscow.

The newspaper Vechernyaya Moskva said yesterday that a meeting of Moscow city and district party leaders on Saturday had removed Mr Yeltsin from the chairmanship of the Moscow City Council and dismissed him as a member of the council's executive commission.

The city council handles the day-to-day administration of Moscow under the political supervision of the party committee.

Mr Yeltsin, 56, was sacked last Wednesday as Moscow city party chief after being officially accused of committing a "gross political error" and placing his personal ambitions ahead of the interests of the Communist Party.

A non-voting member of the ruling Politburo, Mr Yeltsin effectively ended his political career at a party central committee session on October 21, when he said the Kremlin's reform drive had brought no change to people's lives.

Mr Mikhail Gorbachev, the Soviet leader, and Moscow party officials who had served under Mr Yeltsin conducted a lengthy and at times virulent denunciation



Yeltsin: further demotion

tion of the man who had come to symbolise the Kremlin's drive for "perestroika" (reconstruction).

Mr Yeltsin's dismissal as head of the Moscow party ensured he will also lose his Politburo post. Political analysts said his demotion to a junior post in the provinces was considered likely.

According to unconfirmed rumours circulating in Moscow, Mr Yeltsin had a heart attack following the meeting at which he was condemned by his colleagues.

Leading women's rights worker held in Malaysia

A LEADING women's rights advocate has been arrested without trial in Malaysia's continuing clampdown on government critics, Reuters reports from Kuala Lumpur.

The arrest of Ms Cecilia Ng Cheon Sim, a lecturer at Malaysia's Agricultural University and leader of many women's groups, brings the total detained in the past three weeks to 97.

Ms Ng, 36, a speaker at many Asian women's conferences, was picked up by Special Branch police last night at a women's centre in Kuala Lumpur, her colleagues said.

Malaysia has made the arrests banned political rallies and closed three newspapers in a campaign that officials say aims to reduce tension between Malays and Chinese.

The other detainees are mainly prominent government critics, opposition and government politicians, leaders of social action groups, academics, educators and trade unionists.

Eight of those held under the Internal Security Act are challenging their detention and a court will hear their cases on November 23. Their lawyers have filed writs of habeas corpus.

The writs require police to produce these detainees in court and give reasons for their continued detention. The court can order their release if it is not satisfied with the reasons.

Dr Mahathir Mohamad, the Prime Minister, said on Friday the government would prepare a document defending the arrests once police had completed their investigations.

Minister seeks UK investment in Spain

BY TOM BURNS IN MADRID

SPAIN'S Industry Minister, Mr Luis Carlos Croquer, begins a five-day official visit to London today to promote investment opportunities in Spain at a time when Britain's share of the booming market in the peninsula is slipping.

Although Spain currently represents Britain's fastest growing export market, officials in Madrid believe that British companies are being outpaced by those of other European Community nations who are penetrating the Spanish market more aggressively and are better tuned to joint ventures and partnerships with local companies.

British exports to Spain last year, the first of Spain's membership of the EC, rose by 23 per cent and were up by a further 20 per cent in the first six months of this year against the same period of 1986.

Spain, where domestic consumption is increasing at a rate of 7 per cent a year, is now Britain's ninth-largest export market, whereas it stood 17th just six years ago.

The achievements of British exporters to Spain look less successful, however, in the context of an all-round drive by EC member countries to consolidate and increase their presence in the Spanish market.

Italy is likely this year to move ahead of Britain to become the fourth-largest national supplier to Spain behind France, West Germany and the US.

A forthcoming annual office equipment trade fair in Madrid will not have any British sponsored participation. The absence of British firms at the SIMO fair is seen as indicative of missed business opportunities.

Mr Croquer is scheduled to hold talks with a number of British firms including GEC, British Aerospace, ICI and BP, and will be holding talks with Mr Kenneth Clark, Trade and Industry Minister, tomorrow.

During the visit Spanish and British officials are expected to issue a joint declaration aimed at establishing a bilateral group to monitor technical standards in trade between the two countries.

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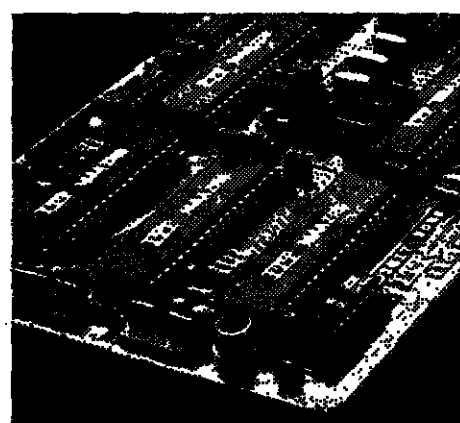
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BUILDING BUSINESSES INTO LEADERS

Botha in visit to troops as casualties rise

BY JIM JONES IN JOHANNESBURG

PRESIDENT P.W. Botha and several members of his Cabinet have made an unannounced, morale-boosting visit to South African troops in Angola as officially-disclosed battle deaths have continued to rise.

On Friday last week, the deaths of five more white soldiers were officially announced, lifting to 23 the number of lives lost by South African government troops in the past two weeks in operations against Swapo and Luanda's Fapla army.

In Pretoria on Saturday, Gen. Magnus Malan, South Africa's defence minister, told the Transvaal congress of the ruling National Party that President Botha, his foreign minister Mr. P.J. Botha, finance minister Barend du Plessis and education minister F.W. de Klerk had each made separate visits to military units in Angola "very recently".

Gen. Malan told the party congress that President Botha had wanted to demonstrate his sympathy, involvement and personal responsibility for the military action against Swapo forces and those of Angola's Fapla army.

Gen. Malan added that fierce fighting is continuing in southern Angola, though he withheld details.

He said Pretoria's aim was to inflict a "once-for-all" defeat on Fapla which would be the turning point in the Angolan war. South Africa's intervention was designed to show the Soviet Union that the country would not allow UNITA to be defeated.

President Botha told conference delegates that his government would not negotiate with the ANC on South Africa's future. The tough line was in part designed to persuade party right-wingers not to join the growing number of defections to the official opposition Conservative Party (CP).

Defections to the CP have been particularly high in the Transvaal and more are feared as the CP attacks the government over the release of Govan Mbeki less than two weeks ago.

The Sowetan, one of South Africa's principal black newspapers, has been threatened with



Mr Botha: morale booster

closure for publishing three articles the Botha government believes enhance the image of the ANC.

According to the Sunday Star, the Sowetan's sister newspaper, the government objects to a report saying the ANC had condemned "necklace" killings, another quoting exiled black leaders on the anniversary of President Mandela's death, and the publication of an opinion poll on May 6, the date of South Africa's white general election, showing that most black South Africans would choose Nelson Mandela or Oliver Tambo as the head of the country's government.

The Sowetan has until November 27 to appeal against the government's findings. If the appeal fails an official warning to the newspaper will be published in the government gazette.

If this is followed by further reports the government believes promote the image of the ANC or the Pan-Africanist Congress (PAC), the newspaper could be closed down.

Judgment is due to be given this week on an appeal by Mr Zwelakhe Shuba, editor of New Nation, against his continued detention without trial.

Nigeria in arrears on interest payments

By Peter Montague, World Trade Editor

NIGERIA has fallen behind with interest payments on debt owed to Western export credit agencies that was rescheduled under a \$4.5bn Paris Club agreement announced in December last year.

The arrears are likely to cause further delays in the provision of fresh export credit that had been expected to start flowing in the wake of the Paris Club arrangement.

Bankers say they are particularly worrying because they affect debt owed to countries such as the UK, France and West Germany which have signed specific bilateral rescheduling arrangements with Nigeria under the Paris Club agreement. A normal condition of such bilateral deals is that interest payments be kept current.

Export credit agencies are due to examine the Nigerian situation at a meeting convened in Paris next week.

The World Bank is anxious to ensure that individual agencies only finance projects which are compatible with its structural adjustment programme for Nigeria.

Tony Walker considers the likely impact of the Amman summit

Egypt returns to the Arab fold

THERE WAS a noticeable buzz at the weekend at the handsome chambers used by Egypt's top diplomats on Cairo's central Tahrir square.

Mercedes cars, flying diplomatic ensigns not seen in Cairo for more than eight years, queued at the ornate palace that once belonged to the former ruling family. Inside, dark-suited officials exchanged greetings in effusive Arab fashion. It was like the first day back at school.

Egypt, which was dismissed from the Arab mainstream after it signed the peace treaty with Israel in 1979, was officially back on cordial terms with many of its neighbours. Iraq, Kuwait and Morocco at the weekend re-established full diplomatic relations with Egypt after a break of eight years.

The United Arab Emirates had done so on Wednesday. Other Gulf states, notably Bahrain, Qatar and Saudi Arabia, are expected to follow suit soon. North Yemen is another of Egypt's regional neighbours considered likely to resume full relations. Sudan, Somalia and Oman refused to join fellow Arab states in severing ties in 1979. Jordan resumed relations in 1986 followed by Djibouti last year.

Western officials see Egypt's move back towards the Arab mainstream as the most positive development of last week's emergency 21-state Arab summit in Amman. It will, they say, contribute towards solidifying a moderate axis among Arab states

Egypt and the US finalised an agreement at the weekend on the rescheduling of about \$1.6bn of military and civil debt, Tony Walker reports from Cairo.

The US becomes the third country out of 18 to reach agreement with Egypt on terms for rescheduling of about \$8bn of government-guaranteed debt that was the subject of Paris Club negotiations in May.

The US insisted that Egypt pay commercial rates of interest applicable on that part of the rescheduled debt not covered by concessional loans.

This applies almost exclusively to the military debt which accounts for about two-thirds of the resched-

uled amount. An Egyptian official said interest payments on the rescheduled debt would range between 2 and 7 per cent. In May, Egypt was granted a standard 10-year Paris Club rescheduling including a five-year grace period on the payment of principal.

Other countries to have concluded agreements were France and Spain. The Paris Club rescheduling covers accumulated arrears plus payments due between January 1987 and June 1988 on civil and military debt.

A senior Egyptian official, who is overseeing rescheduling discussions, said agreements with Egypt's principal creditors were not expected to be concluded before early next year.

As a counterweight to the militants, principally Syria, Cairo, once again, will become a focus of regional diplomatic activity, and, it is hoped, an effective force for moderation. But there are few illusions among both Western observers and senior Egyptian officials about the impact new alignments in the Arab world can make on some of the region's intractable problems such as the Arab-Israeli dispute and the Gulf war.

"The Amman summit achieved a little more than we expected," said an Egyptian foreign minis-

try official cautiously, "but a lot of it was rhetoric".

The official said that Egypt would now have to pay more attention to what was happening in the Gulf "in terms of what help we can give".

He also said that Cairo would have to study its options carefully in the Arab world in light of new developments. "The task for us," he said, "is to reformulate our strategy to make the best use of institutions open to us."

Syria managed at the Amman summit to block Egypt's re-admission to the Arab League - the

peak organisation of Arab states. Security fears among Gulf states pushed them towards a formal reconciliation with Egypt, the Arab world's predominant military power.

Egyptian officials are responding in a low-key fashion to the decision of neighbours to resume relations.

They wish to avoid giving the impression that they feel a sense of vindication at what in some ways is an admission by Arab states that their decision to suspend relations in 1979 was incorrect.

Egypt is hardly likely to commit troops to the Gulf. Its assistance will be limited to technical support and a green light to individual Egyptians who choose to serve in the Iraqi army.

The chief value of Cairo's reconciliation with its moderate Arab neighbours, they say, is a feeling in the Gulf that if the worst comes to the worst, Egypt with its 500,000-strong, American-equipped army, would be in a position to provide a counterweight to Iran.

The Gulf states are not the only ones which have welcomed Egypt's return to the Arab fold. Israeli leaders have also been expressing approval. Cairo's official press, however, is giving little prominence to statements of Israeli support. The peace treaty with Israel remains an uncomfortable and rarely talked about fact of life for the Egyptian leadership.

S Korean candidates attacked at rallies

By Maggie Ford in Seoul

Two South Korean opposition presidential candidates were attacked by protesters hurling stones and eggs at rallies in the strongholds of rivals at the weekend.

The candidates, Mr Kim Young Sam and Mr Kim Dae Jung, both voiced suspicion about the motives of the protesters and called on the Government to resign and appoint a neutral cabinet to ensure a fair election.

On Saturday, Mr Kim Young Sam was forced to retreat in the face of the violence when he held his rally in the home region of his rival, Mr Kim Dae Jung. Eyewitnesses reported that a crowd of around 75,000 turned out at his rally in Kwangju, although many were clearly supporters of Mr Kim Dae Jung.

Mr Kim Dae Jung, who last weekend experienced an attack in Mr Kim Young Sam's home town of Pusan, yesterday held a rally in Taegu, the home town of Mr Roh Tae Woo, candidate of the ruling party.

He too was attacked by people throwing eggs, stones and bottles during a two-hour rally attended by about 70,000 people. Six people were injured.

Observers believe that those causing the violence may be thugs hired by right-wing elements.

Riot police stop Taiwan 'run for democracy'

BY BOB KING IN TAIPEI

SQUADS of Taiwanese riot police prevented thousands of dissidents from converging on the Taipei International Airport at the weekend, to welcome home opposition leaders who sought to continue "run for democracy" begun on October 31 in the US.

The opposition was seeking to bring into Taiwan a symbolic torch which Taiwanese dissidents had carried across the US to dramatise their demands for new general elections to replace members of parliament and the National Assembly elected four decades ago in China.

The dissidents were hoping to continue the run across Taiwan. But Taiwan customs confiscated

the torch at the airport, calling it a dangerous item, and the government has forbidden the run on the grounds that it might endanger national security.

The incident is the latest in a series of confrontations between the government and the opposition over the question of representation in the two important national bodies.

The government has said it will "rejuvenate" both bodies currently dominated by ageing Nationalist Party members who, according to law, cannot be replaced until free elections can be held in China.

But it is not yet clear how thorough the "rejuvenation" will be.

Bangladesh opposition extends general strike

BY SAYED KAMALUDDIN IN DHAKA

THE Bangladesh opposition, in a move to generate fresh momentum to force President Hussain Mohammad Ershad to resign, has extended countrywide general strikes for two more days, ending tomorrow.

President Ershad, who resigned as Chief of Army Staff in August last year to contest the

presidency, is facing his worst political crisis since he took power in a bloodless coup in March 1982.

A bomb exploded yesterday in the compound of the Ministry of Foreign Affairs building but nobody was hurt. Over the weekend protests continued in Dhaka.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Oct '87	Sept '87	Aug '87	Oct '86
USA 000's	7,174.0	7,089.0	7,221.0	8,222.0
%	5.8	5.7	6.0	6.9
UK 000's	2,751.0	2,870.0	2,865.0	3,207.0
%	9.9	10.3	10.3	11.7
W. Germany 000's	2,187.1	2,164.6	2,175.6	2,046.1
%	7.2	7.1	7.1	7.1
France 000's	2,673.6	2,574.9	2,467.3	2,424.3
%	11.4	11.0	10.6	11.2
Italy 000's	3,326.0	3,262.0	3,219.0	3,195.5
%	14.0	13.9	13.9	13.6
Netherlands 000's	687.1	694.1	691.9	704.8
%	12.0	12.1	12.1	12.3
Belgium 000's	515.6	517.8	515.0	532.4
%	12.5	12.6	12.5	12.9
Japan 000's	1,444.0	1,590.0	1,760.0	1,970.0
%	2.7	2.6	2.9	2.8

Source: Concept US, UK, Japan, Eurostat

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OVERSEAS NEWS

Cockfield to press EC tax scheme

BY WILLIAM DAWKINS IN BRUSSELS

CONTROVERSIAL. European Commission plans to set common rates of indirect tax across the European Community will today be given their first formal hearing by a meeting of sceptical finance ministers.

Lord Cockfield, the Commissioner responsible for the internal market, will tell them that his scheme is possibly the most important part of the EC's drive to create a genuinely free common market by 1992. But it will also be the hardest internal market measure for which to win member states' assent.

He is due to make an impassioned plea for support for his much-maligned proposals, which would replace the present widely varying rates of VAT with two common bands, a low one for socially sensitive goods and service and a higher one for other items.

Lord Cockfield's package, agreed by a Commission major-

ity in July, is so far-reaching that finance ministers are expected to shelve it until early next year, rather than respond in detail today. They will probably pass it to the EC's Economic Policy Committee, an ad hoc body of eminent economists, to produce a report by next spring on how VAT harmonisation would affect jobs, industry and cross-border trade.

Nearly all member states have voiced criticism of the plan, based on unwillingness to pass a big part of their revenue raising powers to Brussels bureaucrats.

Opposition has been particularly intense from Britain, which would lose its scope for zero rating sensitive goods such as children's clothes, food and newspapers if the measure was adopted. The Commission, meanwhile, is getting increasingly angry at what it sees as short-sighted and nationalistic attempts to tamper with an internal market pro-

gramme that formally has member states' broad support. It has even pulled off the table a smaller tax harmonisation scheme, that was due for debate today, to set common VAT rules for second hand goods.

Denmark, which holds the presidency of the Council of Ministers, tried to break an 11-year deadlock over the proposals by suggesting that member states could choose between taxing the full value of second hand goods - as in the Commission proposal - or just the profit margin on sale. Brussels is determined to have a common scheme and will come back with a new plan soon.

However, finance ministers do have the chance of agreeing today on a separate VAT measure to ensure that member states provide exemption for VAT for the same categories of goods and services. They include a diverse list from private mail deliveries to false legs.



Cockfield pleads for support

The proposal also means that some exemptions now allowed under national laws would have to be abandoned.

Brussels to examine electricity efficiency

By Tim Dickinson in Brussels

THE European Commission has announced that it plans to draw up a programme by the middle of next year for improving the efficiency of electricity use in the European Community.

The EC's Energy Ministers were told at a meeting in Brussels last Friday that appliance manufacturers and the electricity supply industry - through Unifed, the Union of European Electricity Producers and Distributors - will be closely consulted and that detailed proposals will be on the table by the second half of next year.

EC member states last year committed themselves in principle to a vigorous energy-saving policy and set themselves the objective of at least a 20 per cent improvement in "the efficiency of final energy demand" by 1995.

Brussels officials are now anxious to establish an EC framework to reinforce the measures being taken to conserve electricity in certain member states, notably in Northern Europe, but not all countries are convinced of the need for Community-wide action, or the practicality of such a step.

The Commission pointed out in a communication to last week's Council that even a 10 per cent improvement in electricity efficiency would reduce the Community's primary energy requirements by almost 1m barrels of oil per day, that consumers' electricity bills would be cut by up to £200m per year (in 1986 prices) and that investment in more than 40 gigawatt of additional generating capacity, involving investment costs of £200m to £250m, could be avoided. On top of this there could be significant environmental benefits.

Ideas put forward by the Commission's paper include the use of higher efficiency electric motors.

Brussels officials estimate that by the year 2000 electricity could account for about 20 per cent of final energy demand in the Community, as against 17 per cent at present.

Yugoslavia unveils sharp rise in basic goods prices

BY ALEKSANDAR LEBEL IN BELGRADE

A GENERAL price and wage freeze was introduced in Yugoslavia yesterday after many basic goods and service prices had been drastically increased by the Government on Saturday. The dinner will be devalued substantially, probably today.

The package is part of the Government's anti-inflation and stabilisation programme passed by a majority vote in the Federal Parliament last Saturday. MPs from Slovenia, the most developed constituent republic, voted against it, and MPs from the second most developed republic, Croatia, split their vote.

Prices, with the exception of those increased by government decision, have been frozen at the level of October 1 until the end of June next year. Some price increases include electric power (80 per cent), coal (82 per cent),

railway rates (81 per cent), postal and telecommunications rates (83 per cent), and agricultural chemicals (44 per cent). In addition, prices of oil products were increased.

The Government estimates that the price increases will result in producer prices going up by 24 per cent, retail prices by 18 per cent, and the cost of living by 16 per cent. In the 12 months ending October, producer prices have increased 10.7 per cent, retail prices 13.9 per cent, and the cost of living 14.0 per cent. At the moment, the Government estimates inflation has a trend of increase of 168 per cent and that could reach 220 per cent by next January.

The Government's decision to increase some prices selectively has been justified by its wish to eliminate the most striking price

disparities. Wages and salaries may rise in accordance with social compacts. Ten industries, where wages have been much higher than the norm, will have increases limited to 90 per cent of those allowed under compacts.

Banks, insurance companies, lotteries and the like will be allowed to pay wages and salaries at the average level of the third quarter of this year. Loss-making companies will pay their workforce 90 to 95 per cent of last year's average increase in the cost of living. Various budgets and quasi-budgets will be allowed to keep their expenditure at the level of 80 per cent of the monthly average in the first nine months of this year. The same applies to travel and entertainment expenses throughout the country.

Making waves for world shipping

"THIS WAS always intended to be the spear in the wall, just to show we mean business."

That is how one EC shipping expert graphically described the European Commission's decision, announced on Saturday, to open the first ever anti-dumping inquiry by the Community into marine freight rates charged by a shipper in a non-member state.

It comes in response to allegations by eight major Community shipping lines that they are being unfairly undercut on routes between Europe and Australia by a formidable new South Korean competitor, Hyundai Merchant Marine.

It could culminate in the Koreans being forced to pay punitive port levies to bridge the gap between their rates and "normal" charges for the route. The outcome of this important test case will be watched keenly by shippers all over the EC.

If the eight carriers involved are successful, other actions are bound to follow from a depressed maritime freight industry in which all players are struggling harder than ever for market share.

For obvious reasons, other potential complainants do not want to give anything away about actions they might bring as a result of the Hyundai case.

Yet it is no secret that Brussels has for the past three years been monitoring rates on lines on routes to the Far East, Central America and East Africa.

This is the first use made of

EC shippers are proving they mean business, writes William Dawkins

the external trade defences in the EC's new maritime policy, agreed by member-states last December, and which also sets conditions for a free internal shipping industry.

It comes after years of lobbying by EC shippers, ironically directed against the Soviet Union and Taiwan rather than the more recent competition from South Korea.

The Community industry had to pay a price for getting anti-dumping provisions into the maritime package, in the shape of a promise to give up a large part of its old internal EC route-sharing and price-fixing accords, and EC shipping lines are now looking for a successful anti-dumping action against Hyundai.

"If the new laws are to mean anything at all, this is a classic case to be caught under them," says Mr Alan Bott, chairman of the conference of seven EC shippers at the heart of the complaint.

But to win this case, the EC shippers must prove that Hyundai has been indulging in unfair or "non-commercial" trade practices and has caused them injury

as a result. They must also show that the company's rates undercut the normal European rates charged on that route before the alleged unfair action started.

Case, the EC shippers' association representing the total of eight lines - including one non-conference carrier involved, claims Hyundai has been charging between 25 per cent and 30 per cent below comparable EC rates since it started making its presence felt on the route last October.

It calculates "normal" rates by taking the average between one of the complainants - ABC Containerline of Belgium - and an independent non-EC carrier, Eagle Line of Switzerland.

They just have to be making a loss by any Western economic standards, claims Mr Bott, who is also a director of P&O Containers, one of the complainants.

The EC shippers must also prove that Hyundai's ability to charge such rates derives from some kind of "non-commercial advantage" such as public subsidies. They claim that the group "has massive outstanding debts which have been refinanced on favourable terms by the Korean Government bank".

Moreover, they allege, the group acquired the eight ships it runs on the route at well below cost from Hyundai Industrial Group's shipbuilding division. On top of that, Hyundai benefits from a preferential South Korean cargo reservation scheme, they argue.

Finally, Case must prove that its members are suffering at the hands of the South Koreans, through job losses, loss of business or declining profitability.

Even before South Korea started upstaging the boat on the route, revenues were slipping because of the dollar's decline (shipping charges are fixed in the US currency) and falling demand from a depressed Australian economy.

"Add Hyundai, and you have a considerable amount of pressure," says Mr Bott. At full capacity, Hyundai can take about 10 per cent of the business on the route, enough to depress the market considerably.

As a result, the EC lines' own capacity utilisation has fallen by 7 per cent over the past year, so that their own rates can no longer cover costs, they claim.

Whatever the outcome of the inquiry, expected within the next three to six months, there is no doubt it will make waves across the world's shipping industry.

The complaint is by P & O Containers and Associated Container Transporters (Australia) of the UK, Compagnie Generale Maritime of France, East Asiatic Company of Denmark, Hapag Lloyd of West Germany, Lloyd Triestino of Italy, Nedlloyd of the Netherlands, and Compania Naviera Mercaderes de Spain.

Totu to hold talks with Howe

BY JUDY DEMPSEY

MR IOAN TOTU, the Romanian Foreign Minister, today begins a two-day official visit to London in which he will hold talks with Sir Geoffrey Howe, the British Foreign Secretary.

The Romanian Foreign Minister in Bucharest described the visit as bilateral and partly a visit in return for Sir Geoffrey's visit to Romania in 1985.

The items under discussion will include trade, human rights and overall contacts between both countries.

Trade figures show continuing decline. Total volume decreased by 10 per cent in 1986 compared with the previous year and is

expected to decrease by 25 per cent this year. Under the current economic policy, the Romanian authorities will be seeking greater exports to Great Britain, which in 1986 totalled \$86m while British exports to Romania reached \$61.9m.

During the visit, Mr Totu is expected to visit British Aerospace, which is negotiating a contract to re-engine the Romach plane in Romania.

The question of human rights will also be raised. One of the more pressing issues concerns a number of marriages in which the Romanian spouse has not

been allowed leave Romania. Thirteen such cases are still outstanding. Eleven of the couples have been waiting for more than six months for permission to emigrate. In recent months, the Romanian authorities have settled 20 such cases in which one of the spouses was married to a Briton.

Contacts between officials and non-officials will also be raised. It is now widely accepted that Romania is one of the most difficult and restrictive countries in Eastern Europe in terms of regular contacts with Romanian officials and especially private contacts.

Aer Lingus to acquire new Boeing twin-jet

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AER LINGUS, the Irish flag airline, is spending up to \$50m on acquiring four of the latest models of the Boeing 737 twin-engine jet, the Series 500.

Aer Lingus said the deal would be financed out of its own resources, without recourse to the Irish Government.

The company said: "The airline is in a position to fund this second phase of its programme (it recently acquired Boeing 737-300s) because of improved financial results arising from major cost-reductions and its very profitable ancillary activities."

The new 117-seater twin-jets will be used on Aer Lingus routes to some UK provincial cities and to Continental Europe. The airline also plans to use the aircraft on routes within Europe, as these become available following the liberalisation of air transport within the European Community.

As part of the deal with Boeing, Boeing will set up a software development company in Ireland. Boeing also plans to work with Irish manufacturers to increase their participation in aerospace projects.

Czech Premier in Moscow

MR Lubomir Strougal, the Czechoslovak Prime Minister, arrived in Moscow yesterday amid signs of a possible Soviet reassessment of the 1968 reform movement known as the Prague Spring and the subsequent Warsaw Pact military intervention in Czechoslovakia, Western reports.

The Soviet news agency Tass reported that Mr Strougal was met on arrival by Mr Nikolai Ryshkov, the Soviet Prime Minister, and other officials.

Czechoslovakia's Communist rulers are putting a brave face on signs that Moscow may reinterpret the military invasion that put them into power almost 20 years ago.

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Thai
We reach for the sky

MOTOROLA, the US electronics group, is fighting a battle on two fronts. On the one hand, it wants to maintain a technological edge over Intel, its great US rival, in the key area of microprocessors, the chips which do the fundamental thinking in advanced electronics equipment like computers. On the other, it has set its sights on penetrating the Japanese markets, which now rank with the US in semiconductor sales.

Recent decisions by the company, which is America's biggest chip manufacturer, have shaped its strategy for the rest of the decade.

Key elements of the strategy are an innovative link with Toshiba of Japan, the world's second largest chip manufacturer, and plans to expand its range of 32-bit microprocessors, a market it currently leads.

Motorola has been able to build its new strategy on the back of its success - greater than that of many of its rivals - in weathering the industry's semiconductor slump of 1985-86.

The company was helped then by having a broad product portfolio relevant to a number of customer industries, reducing its exposure to the computer industry, whose slump in sales underpinned the semiconductor crash.

When you look at our mix of products, being the biggest discrete house in the world and having a lot of bi-polar and linear and other products that don't relate as strongly with the computer industry, as the pc and computer industry slumped down, our other businesses helped us," explains John Mitchell, Motorola's president.

As the first signs of the slump hit the industry, Motorola also took the bold decision to pull out of dynamic RAMs, the memory chips which are the basic workhorse of the computer industry. Over-supply by the Japanese, who now dominate the memory business, was feeding through into a huge drop in prices.

Mitchell recalls: "People were selling below cost and therefore no one was making any money... and we just decided to narrow our scope in the memory business."

Having pared back in the face of the slump, Motorola began to reshape its strategy.

The Motorola-Toshiba deal - one of the most elaborate technology-and-trade agreements ever signed between a Japanese and US company - has three elements: Motorola will transfer its microprocessor technology to Toshiba; Toshiba will in return pass its memory technology to Motorola; and Toshiba will help Motorola penetrate the Japanese market.

Thanks to the deal, Motorola will re-enter the DRAM market, using the know-how of Toshiba which is at the forefront of the new generation of one-megabit DRAM chips.

Microprocessors

Japanese link crucial to Motorola strategy

Terry Dodsworth and David Thomas examine the US group's deal with Toshiba to maintain its supremacy

MOTOROLA has established a reputation for cautious, prudent expansion. It has used its investment across a range of products, aims at an equally diverse mix of markets, and is not too dependent on any single end user. But how will this approach measure up to the next big growth phase in the specialist chip manufacturing business - the development of the 32-bit microprocessor market?

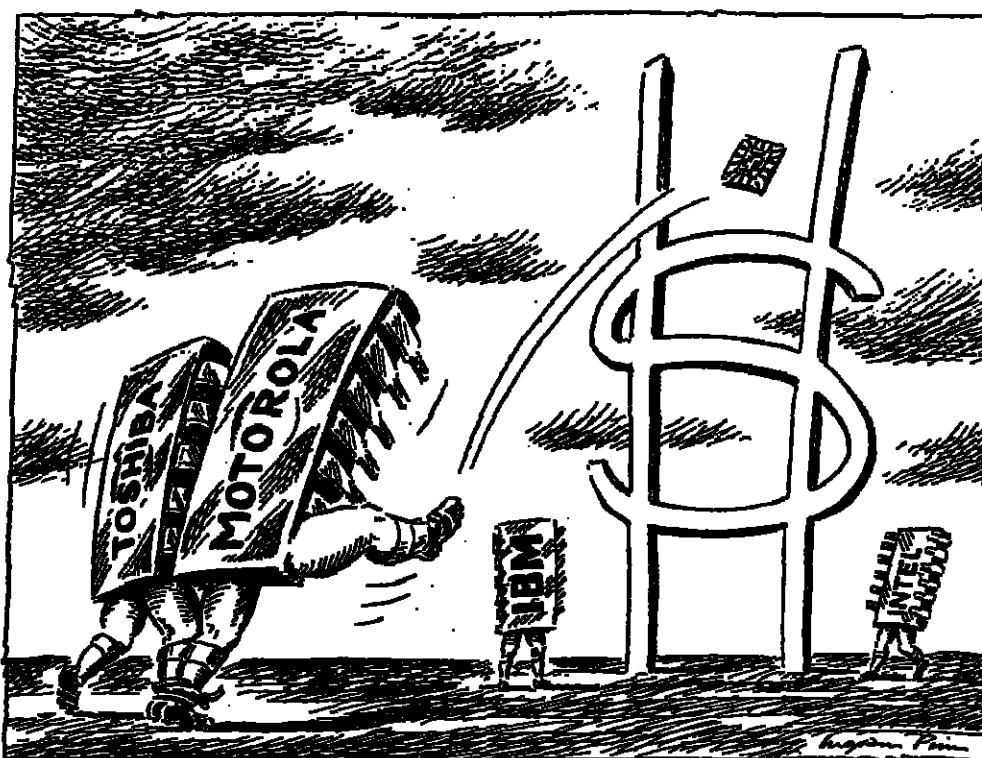
The challenge facing Motorola is to manage a market on which it already has a strong grip, but where stiff new competition is

emerging. Volume is expected to go rocketing up in the next few years as prices fall and the 32-bit processor becomes a standard item in office products.

But at the volume end of the market, Motorola's old rival, Intel, has been the dominant player historically because of its role as a supplier to the IBM personal computer range.

The background against which this skirmish will be fought would be the staff of dreams in any industry but microelectronics.

In the space of the five years from 1985 to 1990, it



is expected that the market for 32-bit microprocessors will have jumped from 100,000 units a year to 11.2m, a compound annual growth rate of just over 100 per cent, while revenues leap from \$15m to \$414m.

Prices are likely to drop, says Datquest, the market research firm, from \$188 a unit to \$28 by 1991.

Behind this forecast growth lie the enormous gains in power provided by 32-bit microprocessors, chips which allow information to be dealt with in 32 digit word lengths against the traditional 16 bits.

Personal computers using these semiconductors may be able to work at an average of six times faster than the previous generation once the software which will make full use of their capabilities is written; and they will be a key element in areas such as laser printing and copying, which demand lots of processing power.

Motorola's current lead in the 32-bit market, where it has a share estimated at just under 60 per cent, was achieved by winning the development race.

The company launched its

first 32-bit product, the 68020, three years ago, way ahead of Intel, which is only now moving into significant volume production after some quality hitches in the wake of its launch of its new 80386 chip earlier this year.

It has used this advance on its rival to carve out a strong position for itself in a variety of specialised markets such as industrial automation equipment, robots, telecommunications and sophisticated workstations.

By the end of this year it expects to have shipped 1m units.

arranging package deals with customers, with memory and logic chips being linked to the microprocessor purchase. Microprocessors are regarded as the key products in this type of marketing.

By anchoring itself so firmly in the workstation sector, Motorola is hoping for much greater penetration of the general office computing sector than it has achieved in the past.

Technical workstations, used for engineering and scientific applications, have proved a strong growth business in the last few years. Some analysts now feel that these machines are poised to win a much greater stake in the general-purpose office computing sector: indeed, Datquest is predicting that by 1992 around 50 per cent of the total market for 32-bit processors will be in office equipment of

architecture, is paying off. The 68000 series of chips was first conceived in the late 1970s, when the industry was moving from 8-bit to 16-bit processors.

At that time, Motorola decided to opt for a design that could be evolved; as a result, it is now in the process of launching an enhanced 32-bit product, the 68030, which will be fully compatible with the 68020, but which promises another big performance increase.

Common designs were aimed at encouraging a large software base, one of the keys to keeping customers happy. This means that, while the processing power may be enhanced, existing software does not become obsolete; customers can therefore plan for longer term development of their products.

The company's broad product range is an advantage in

this kind. The question for Motorola is whether, in this battle for office business, the workstation manufacturers will be able to move their machines successfully down market into more general applications.

There is little doubt in the industry that there will be strong demand for such machines: users are increasingly keen on their number-crunching capabilities, high quality graphics and user-friendly operating characteristics; and prices will fall.

On the other hand, there is nothing to stop manufacturers of the current range of personal computers moving their products up market technologically to capture the ground the workstation producers are pursuing.

Aimed with the Intel 386 chip they will have the technological base for doing this; indeed, it is already clear that the new PS/2 range of personal computers will allow IBM to make this marketing shift as it is phased in with all the new software.

The Intel-based products also have another advantage: software. Because of IBM's strength in the personal computer market, the majority of software produced for the office environment is written around the Intel chip and the IBM operating system. Users will not easily be weaned away from this dependence.

"In microprocessor terms, Intel dominates the office equipment market at the moment because the business is software driven," says Jim Bewridge, an analyst at Datquest's London office. "Customers go out to buy the Lotus 1-2-3 spreadsheet program rather than the 386 microprocessor."

The scope for Motorola to expand its position in this part of the semiconductor market could largely depend, therefore, on the ability of the workstation manufacturers to convince customers that a personal computer world exists outside the universe of the IBM operating system. By any standards, that will pose a formidable challenge.

The revival of the computer market has boosted demand. The US-Japan semiconductor pact, after a faltering start, has driven up prices and choked off Japanese dumping of semiconductors in the US and third markets.

Chuck Thompson, in charge of Motorola's semiconductor marketing worldwide said: "There is a very orderly increase in demand. I don't see any equipment market over-heating."

Motorola has tried to learn the lessons of 1985-86, when the semiconductor slump was aggravated by massive over-ordering during the boom by customers afraid of missing deliveries when demand was high.

"We are managing our backlog very carefully. We are not letting our distributors build up an inventory. There is no sense in over-selling," Chuck Thompson explains.

Management abstracts

Does comparable worth obscure the real issue? C.C. Hoffmann & K.P. Hoffmann in *Personnel Journal* (US), Jan 87, 13 pages.

A case history of the investigation by consultants of the situation in "an Eastern (US) manufacturing firm" in which - despite an equal opportunities policy - there were many more male than female employees in the high-paid product department and the reverse in the lower-paid packaging department; exposes, from an employee survey, factors that affect job choice, male and female views of work suitable for each sex, the different uses of free time by the sexes, the differing effects of family demands, and the relative importance of work to each sex.

The incompetent committee. W.J. Reddin in *Singapore Management Review* (Singapore), Jan 87 (5 pages).

Contents that the reasons for committee ineffectiveness can be found in four modes of team behaviour which match ineffective management styles - desert, autocrat, compromiser and missionary. Discusses the characteristics of each mode and the faults each displays; offers a checklist for committees self-diagnosis as a first step towards greater effectiveness.

Planning for information networks. C.H. Sullivan and J.R. Smart in *Sloan Management Review* (US), Winter 87 (6 pages).

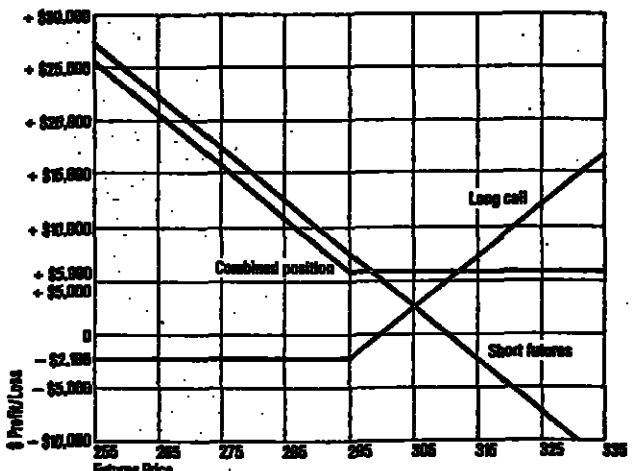
Asserts that companies are not making effective use of communication technologies, either to support existing activities or to create competitive advantage; and that current planning techniques do not reveal opportunities for exploitation; proposes the analysis of information flows and the technologies which can support them; finds significant potential advantages from the use of new communications technologies, eg electronic mail.

Strategic writing for trainees. D. Dumas in *Training & Development Journal* (US), Jan 87 (3 1/2 pages).

In the context of trainers writing proposals for a training programme, looks at some aspects of internal written communications - use of headings, knowing one's audience, keeping it positive and simple (eg short v long words).

These abstracts are condensed from the abstracting journals published by Author Management Publications. Licensed copies of the original articles may be obtained at a cost of \$4 each (including VAT and p.p.c. costs with order) from Author, PO Box 25, Wokingham RG40 2EX.

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THE MONDAY PAGE



JOHN LLOYD

MR ARTHUR SCARGILL is now very largely a political figure. That is not to say that he is unimportant in the coal industry, or that British Coal would not rather he be replaced by Mr John Walsh of North Yorkshire, or anyone else at all. But the nature of his leadership of the National

Union of Mineworkers means he is above, or below, the real struggles which are now being waged in the British coal industry.

The government wants to privatise it, to get it off its hands: it has wanted to do that for a long time, but now the heat is on. The huge investments in coal production which have taken place all over the world are now paying off in a world awash with cheap coal - cheap coal which gets cheaper, as the currency in which it is denominated - the dollar - sinks. As the Board's biggest customer, the Central Electricity Generating Board, itself approaches privatisation, British Coal can see the vestigial protection it still enjoys against market pressures disappearing.

It must raise productivity. There is not much more it can do in bringing in new technology to the highly productive pits - though of course the technology programme continues. It has to get its miners to work harder. To do that it must hold out the best carrot known to employers - more money.

The prospect facing the mining industry - it will be essentially the same whether it is in public or private hands - is for an end to the style of working on which the National Power Loading Agreement of the mid 1960s put its seal. A measured, methodical application of muscle and technology to the task of winning coal. In its place will come a variant of the "butty" system where the miners essentially formed themselves into self-employed gangs who took a contract for a task and delivered it at a price.

Some of this is already happening. BC has contracted out many of its formerly in-house functions, like transportation. Its managers and some of its miners have been sent to the US to study the piece-work systems which prevail there. There are some signs that it is experimenting with "contract" mining, under ground in one or two of its areas: and it may well be

that, if it can push this further, and faster, it will be able to reproduce the presumed gains of privatisation while still being nationalised.

At the same time, and more obviously, BC is pursuing the six day week across all the coalfields. Little noticed at the NUM executive meeting which heard Mr Scargill say he would campaign for a new presidential mandate was an agreement that each area leadership should investigate its own pits could be made economic. The aim would be to stop the steady rate of closures which is reducing the NUM to the status of a small to middle-sized union.

This is a tacit admission that the formal opposition to six-day working is just that - formal. As each area leadership already knows, the industry managers want six-day, flexible working everywhere, and are already

showing themselves willing to bargain the continued working of given pits against the securing of such agreements.

British Coal is continuing to experience, rather later than most industries, the pressures of adaptation to world competition. It is never a simple or a temporary matter: it is continuous and deep, ultimately changing cultures, communities and the nature of people themselves as all revolutions in technology do. A viable British Coal, under any ownership, is one where many of the agreements won by the NUM and the other mining unions over the years are likely to go, wholesale. If the new systems do come in, we are likely to see not just the NUM and the relatively well-off miner - a figure of the seventies - but of (some) really well off miners. The closest analogy is with fishermen who, in many of the UK's fishing ports, are part owners in the boats on which

they work. From being miserably poor before the war some fishermen are now quite rich, though they have retained a working-class culture virtually unchanged. The preservation of the mining tradition is already becoming harder in the face of the erosion of the union's strength, and the split in its ranks. It will survive only as a consciously preserved memory once the day of the mining-entrepreneur dawns.

At the same time, the national status of the union is likely to continue to decline. Already, many area leaders do not believe that the national posts - relatively well rewarded as they are - are worth competing for. Even if the union and BC could again strike up a dialogue, the former would seek to continue its already manifest strategy of pushing negotiations and decision making down to pit or, at most, area level. It is now in the areas

where, necessarily, decisions are made by hard pressed union executives scared of losing more pits and members: and though they rarely admit it to the still-fearing figure of Mr Scargill in Sheffield, there is unlikely to be one area leader who would not make a deal to save jobs now or in the future.

This passing of the mining culture is now largely effected. It does not do to be too romantic about it: it was very largely a culture of hardship and poverty, stunting to men and women alike. The further industrial changes which BC must now implement will set the seal upon it. Quite soon now, a figure like Mr Richard Branson will buy a closed coal mine and turn it into an industrial theme park, complete with visits to the pit bottom, miners' cottages with life-sized models and tape recorded readings from the early works of D H Lawrence.

It is, pardon the pun, a very rich seam and someone will, make a lot of money out of packaging the hard wrought literature, politics and "lifestyles" of Britain's mining people.

When the sheer scale of the thing is appreciated, you can recognise in retrospect the immensity of the task Mr Scargill took on and would still wish to take on. He wanted to stop all of that to preserve, not just jobs, but a particular set of social relationships, a particular attitude to the world. On any analysis, from Marxist to monetarist, he was hopelessly wrong and his leadership may well have caused the British miners to decline in numbers more rapidly than he ever became their leader. But if he wins the presidency again on January 22 - and his pre-emptive strike has rocked his many opponents back on their heels - then it will in part be because he still speaks to something strong in his members which also wants to stop all of that presiding upon them and accepting them.

John Lloyd is editor of the New Statesman.

The case for a poll tax

By Michael Howard

CRITICS (including your leader writer on October 29) have related the Government's proposals to replace domestic rates with a community charge to the wider issues surrounding the nature of the housing market. This is a perfectly valid exercise, indeed it is one we carry out ourselves and described in our Green Paper, Paying for Local Government, in January 1986. But their conclusions ignore the purpose of a new method of financing local government services.

A property tax, whatever its general merits, is a poor basis for a local charge. The national taxpayer and business ratepayers will, of course, continue to pay the lion's share of the costs of local services - some 75 per cent. The purpose of a local charge is to provide local authorities with an independent revenue-raising power for which they are accountable to their local electorate.

Domestic rates apply only to householders and so have a direct impact on only some 15m of the 35m adults in England. We believe that this is to a very large degree responsible for the lack of accountability which enables extravagant local authorities to waste public resources with no real fear of judgement at the ballot box. This in itself has an effect on the broader economy. But more important still, it has had very damaging consequences for local government, for the relationships between local and central government and on the pockets of local ratepayers.

There are two possibilities for the future. We can choose a means of raising revenue which will increase central control over local authorities, or we can seek to improve local democracy by making local councils more accountable to local people. We prefer the latter. The question is how best to do it.

A property tax is not a fair tax. Nearly half the houses with rateable values above the average are lived in by people with below average incomes. Capital values would be no fairer - the differences in house prices across the country grossly exaggerate differences in incomes. Average prices in London are more than twice those in the north of England, whereas average incomes are at most 30 per cent higher.

Then there is the widow in the family home, paying the same as the four earners next door. Your editorial suggested she should be penalised for opting for "excessively lavish accommodation." But there is no evidence to suggest that rates do in practice put pressure on the single elderly to sell their family homes.

Finally, the need to equalise taxable resources between areas leads to unfairness which is not easily understood. Areas of highly valued property - or areas with large numbers of high earners, if we were to introduce a local income tax - can raise much greater revenues for the same rate of tax as areas of poor property or low incomes, where need is probably greater. To counter this unfairness, government grants are paid to equalise the rate poundages which authorities have to levy to pay

for spending at their assessed level of need.

But this leads to an even greater unfairness. In areas of high rateable values, or property prices, all local taxpayers have to pay more for the same level of services than they would do in areas where the tax base is lower. So people in similar properties and on similar incomes pay very different contributions, for reasons unrelated to the level of their local authority's spending. Low paid people in one area subsidise high earners in another. This is a nonsense. Unless we do away with the need for resource equalisation we cannot achieve a fair and accountable system. So we must abolish the local property tax.

We have not ignored the possible effects on the housing market. Our best estimate, published in the 1986 Green Paper, suggests that after allowing for any increase in the supply of housing, house prices might increase by 10 per cent. This is a reasonable estimate of the effect of the abolition of domestic rates.

So what of a new local charge? Your editorial suggested replacing domestic rates with a tax on the imputed rent from owner-occupied property. But more important still, it has had very damaging consequences for local government, for the relationships between local and central government and on the pockets of local ratepayers.

There are two possibilities for the future. We can choose a means of raising revenue which will increase central control over local authorities, or we can seek to improve local democracy by making local councils more accountable to local people. We prefer the latter. The question is how best to do it.

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CONSIDERING his diagnosis of stock markets - "semi-psychotic; given to extremes of elation and despair" - it is no surprise that Warren Buffett has as little to do with them as he can. But when he does, he is spectacularly successful. Over the past 30 years, he has earned several billion dollars. He has a reputation of being one of the US's most astute post-war investors.

He has no need for a stock quote machine in his office to remind him of the fickleness of the markets. Instead, he took the long view 25 years ago when he decorated his office in Omaha, Nebraska with newspaper headlines of great financial disasters of the century.

Not much has changed since then. He still lives in the same house, works in the same building and devotes to the investment principles he learnt in the 1950s from Benjamin Graham, the guru of corporate valuation. Unlike some pupils who surpass their mentors, Mr Buffett takes every opportunity to acknowledge his debt with deep affection. "I've got my good ideas from other people and they deserve the credit." He has successfully resisted becoming a household name even though he periodically makes the headlines: recently, he paid \$700m for a 12 per cent stake in Salomon Inc, parent of Wall Street's largest securities firm.

From "world headquarters", as he wryly describes the few thousand feet of office space, he and a staff of six run Berkshire Hathaway, his main corporate vehicle. It is an industrial and investment holding company with annual sales last year of \$2.2bn, net income of \$282m and return on shareholders' equity of 13.5 per cent.

When everyone and his cab driver is in the market whipping up price premiums over intrinsic value, Mr Buffett spends his time building up and overseeing Berkshire Hathaway's businesses. "I don't consider us owning stocks now. I consider us having big positions in businesses which are permanent commitments," he said on a recent dreary Friday. The atmosphere on Wall Street was worse than the weather outside his Omaha office. Stock prices were evaporating, setting up investors for their learning-like retreat from equities the following Monday morning.

A leading textile maker, Berkshire Hathaway's activities now include insurance, newspapers, encyclopaedias, confectionery, uniforms and furniture retailing. Typically, owner-managers retain a stake when companies join the Buffett fold. When investors' elation gives way to despair, Mr Buffett steps back into the market to make far-sighted equity investments. He has often waited years for the cycle to return to his favour. For his patience and prescience he is known among his admirers as "The Sage of Omaha." It is an incongruous accolade for such a genial, exuberant, non-nonsense mid-westerner.

Even after his latest manic depressive swing, the market still values his company at about \$3.5bn - not that Mr Buffett bothers about the market. He considers his 7,000 shareholders as partners for the long haul. The company has only 1,147,000 shares and he intends to keep it that way. "May you live until Berkshire splits," he wished a friend in a birthday card.

Mr Buffett owns 41 per cent and the rest hardly ever trades. Holders lovingly pass down shares through their families. Some 450 shareholders turn up for the annual general meeting in Omaha, at which Mr Buffett can recognise members of families controlling more than 90 per

cent of the stock. They have prospered through him. Those who invested \$10,000 with him in 1956 have roughly \$5m today.

If you can detach yourself from the emotions of the market, you are going to get a chance periodically to do something intelligent - not very often, but periodically," he says.

As far as I am concerned the market doesn't exist. It is there only as a reference point to check to see if anybody is offering to do anything foolish. When I invest in stocks I invest in businesses. You simply have to behave according to what is rational rather than according to

annual report. "Charlie Munger, my partner in general management, and I do not have any such ideas at present, but our experience has been that they pop up occasionally. (How's that for a strategic plan?)"

And they do. In 1986, Berkshire Hathaway bought 3m shares of Capital Cities for \$172m and then, in a financial takeover of the American Broadcasting Corporation. The company's 18 per cent stake in the combined group is now worth \$250m a share, even after the market crash.

The deal had its ironies. "Your chairman, in a characteristic burst of brilliance," Mr Buffett wrote in the 1986 annual report, "had sold a stake in Cap Cities for \$43 a share in 1978-80. 'Anticipating your question, I spent much of 1985 working on a snappy answer that would reconcile these acts. A little more time, please.' Similarly, the Salomon deal sprang out of the blue in late September when Mr Ronald Perleman, a noted corporate raider, began harrying Wall Street's premier securities firm to a large extent Salomon had brought the trouble on itself by letting a bad product mix and unplanned global expansion devour profits. Though greatly admired for its skills in trading, research and innovation, its share price had tumbled."

At the thought of a raider sitting at their table, Salomon's directors threw themselves on Mr Buffett's tender mercies. He accepted their offer of a board seat and a 12 per cent stake at \$36 for each convertible preferred share paying a 9 per cent annual dividend. He is probably not too distressed that Salomon's common share price halved in the following six weeks. He is in there for the long term for reasons which are his hallmark.

He goes for businesses with a history of a good return on capital, a management he likes and to whom he can entrust the running of the company, and a strong franchise such as a unique reputation, exemplary skills or customer loyalty. Unlike Mr Graham who studied the financial ratios as the basis of relatively short term investments, Mr Buffett also weighs up such intangibles as the franchise when he makes long-term commitments.

Without discussing the deal in detail - "the only thing I can say is that I wrote the check" - he is willing to indicate some of this thinking about Salomon. He says he likes the management and believes there are large areas of

the securities industry which are essential to the economy, such as underwriting and mergers and acquisitions. Supposing you can afford it, he would prefer a high-priced doctor to a low-priced doctor because you feel that there might be some connection between price and skill. Now, there might not be, but when in doubt that is the way you might lean." Given the present difficulties of the securities industry in general and Salomon in particular, it will be some years before the verdict is in on Mr Buffett's commitment to Salomon. Certainly, his clear thinking, highly valued in board rooms at the Washington Post, Cap Cities and a few other companies, should help Salomon to get its feet back on the ground.

Again thanks to the Library of Congress, he also read hundreds of books on investing. "I read millions of words on the subject and they were basically mumbo-jumbo." But it was in 1949 at the

University of Nebraska that he read a book by Mr Graham, a Columbia University professor who wrote the definitive works on corporate valuations and investment theory.

"I read the Intelligent Investor down at a little house on 1825 Pepper Avenue in Lincoln." He was so excited he could hardly put the book down. "It was something equivalent to the revelation of a new religion. It was a rational framework that would work." The book is still a classic today.

He went on to Columbia to study under Mr Graham, and got his MBA in 1951. He subsequently worked for Mr Graham's small New York investment firm for several years before returning to Omaha to begin his own investment career. A pleasant, big small town on the Missouri River, it gives him a chance to think, away from the clamour and constant rumour-mongering of Wall Street.

He says he relishes spending his days the same way as he did 10 or 15 years ago and intends to do so into the next century. He spends hours voraciously reading everything from newspapers (in particular passion) and annual reports to John Maynard Keynes, Pascal and other philosophers, and talking to his wide circle of business associates and friends.

One he obviously admires and enjoys enormously is Mrs Rose Blumkin. Approaching the age of 94, this 4ft 10in dynamo still works seven days a week, whizzing around the carpet department of the Nebraska Furniture Mart in a golf cart. A Russian immigrant, she started the business with \$500. Now the turnover of her one huge Omaha store is \$145m a year. Her recipe: "Sell 10 over cost; tell the truth; don't cheat nobody; and don't take kickbacks."

To ensure the business, which is now run by three generations of Blumkins, stuck to its last, she sold a majority share to Mr Buffett, a few years ago. "He is a gentleman, an honest one, very plain; not stuck up at all; with a smile and a giggle. 'I love the Blumkins,' says Mr Buffett. "We go out to dinner every couple of weeks after the store closes and we have a lot of fun. That is much more fun than stroking stock certificates as far as I am concerned and we will do well financially over a period of time."

His circle of friends is clearly important to him. Nineteen years ago he gathered together a group of former Graham students to meet the master for the last time shortly before he died. They had such a good time they continue meeting, most recently in Williamsburg, Virginia. Discussions range widely from the markets to the biggest mistakes they have all made and to philanthropy. Mr Munger has talked in past years about Einstein and Newton.

"We talk about whether to leave money to the kids or not. Originally we talked about how to get rich but we solved that. Pretty soon we will be talking about geriatric science and such things," says Mr Buffett. He calls it the Graham Group. Everyone else calls it the Buffett Group.

INTERVIEW

The view from Omaha

Roderick Oram talks to Warren Buffett about his singular investment philosophy

1930: Born Omaha, Nebraska
1950-51: Studied under Benjamin Graham, Columbia University
1954-55: Stock analyst for Graham-Newman Corp, New York
1956: Sets up Buffett Partnership, investment partnership
1958: Buys Berkshire Hathaway
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1982: Spends \$517m on 19 per cent stake, Capital Cities/ABC
1987: Buys 12 per cent stake in Salomon Inc for \$700m

PERSONAL FILE

1930: Born Omaha, Nebraska
1950-51: Studied under Benjamin Graham, Columbia University
1954-55: Stock analyst for Graham-Newman Corp, New York
1956: Sets up Buffett Partnership, investment partnership
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what is fashionable. "Back in the early 1970s when investors were cold-shouldering stocks, I felt like an overcast fellow in a harem. Every place you looked there were opportunities." A deep chortle overtook the end of that thought like many others.

Seizing his chances, he bought, for example, a large stake in Affiliated Publications, publisher of the Boston Globe, for \$2.25 a share which he sold in 1986 for \$48.24. Shares in Interpublic Group, a leading advertising agency, were bought for \$3.19 and sold in the early 1980s for an average of \$38.62. True to his style of to have and to hold, Berkshire Hathaway's large minority stake in the Washington Post worth \$196 a share today cost \$5.69 a share in 1973.

As Berkshire Hathaway got bigger and markets more bullish in the mid-1980s, it became increasingly hard for Mr Buffett to maintain his target of 15 per cent return on equity. "Accomplishing this will require a few big ideas - small ones just won't do," Mr Buffett wrote in the 1984



the securities industry which are essential to the economy, such as underwriting and mergers and acquisitions. Supposing you can afford it, he would prefer a high-priced doctor to a low-priced doctor because you feel that there might be some connection between price and skill. Now, there might not be, but when in doubt that is the way you might lean." Given the present difficulties of the securities industry in general and Salomon in particular, it will be some years before the verdict is in on Mr Buffett's commitment to Salomon. Certainly, his clear thinking, highly valued in board rooms at the Washington Post, Cap Cities and a few other companies, should help Salomon to get its feet back on the ground.

Again thanks to the Library of Congress, he also read hundreds of books on investing. "I read millions of words on the subject and they were basically mumbo-jumbo." But it was in 1949 at the

University of Nebraska that he read a book by Mr Graham, a Columbia University professor who wrote the definitive works on corporate valuations and investment theory.

"I read the Intelligent Investor down at a little house on 1825 Pepper Avenue in Lincoln." He was so excited he could hardly put the book down. "It was something equivalent to the revelation of a new religion. It was a rational framework that would work." The book is still a classic today.

He went on to Columbia to study under Mr Graham, and got his MBA in 1951. He subsequently worked for Mr Graham's small New York investment firm for several years before returning to Omaha to begin his own investment career. A pleasant, big small town on the Missouri River, it gives him a chance to think, away from the clamour and constant rumour-mongering of Wall Street.

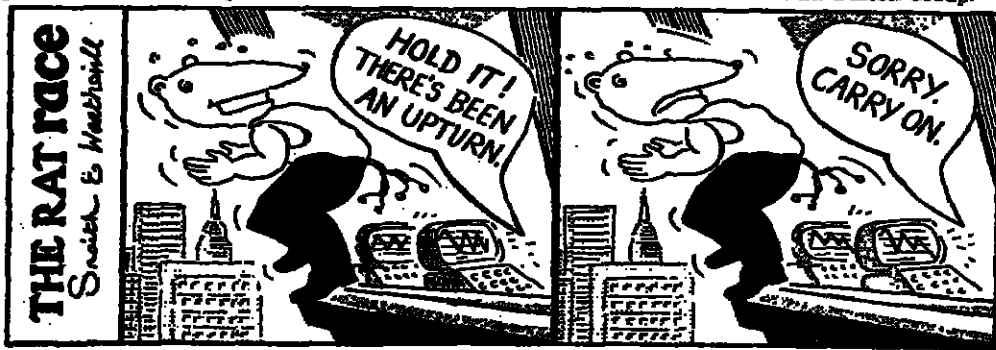
He says he relishes spending his days the same way as he did 10 or 15 years ago and intends to do so into the next century. He spends hours voraciously reading everything from newspapers (in particular passion) and annual reports to John Maynard Keynes, Pascal and other philosophers, and talking to his wide circle of business associates and friends.

One he obviously admires and enjoys enormously is Mrs Rose Blumkin. Approaching the age of 94, this 4ft 10in dynamo still works seven days a week, whizzing around the carpet department of the Nebraska Furniture Mart in a golf cart. A Russian immigrant, she started the business with \$500. Now the turnover of her one huge Omaha store is \$145m a year. Her recipe: "Sell 10 over cost; tell the truth; don't cheat nobody; and don't take kickbacks."

To ensure the business, which is now run by three generations of Blumkins, stuck to its last, she sold a majority share to Mr Buffett, a few years ago. "He is a gentleman, an honest one, very plain; not stuck up at all; with a smile and a giggle. 'I love the Blumkins,' says Mr Buffett. "We go out to dinner every couple of weeks after the store closes and we have a lot of fun. That is much more fun than stroking stock certificates as far as I am concerned and we will do well financially over a period of time."

His circle of friends is clearly important to him. Nineteen years ago he gathered together a group of former Graham students to meet the master for the last time shortly before he died. They had such a good time they continue meeting, most recently in Williamsburg, Virginia. Discussions range widely from the markets to the biggest mistakes they have all made and to philanthropy. Mr Munger has talked in past years about Einstein and Newton.

"We talk about whether to leave money to the kids or not. Originally we talked about how to get rich but we solved that. Pretty soon we will be talking about geriatric science and such things," says Mr Buffett. He calls it the Graham Group. Everyone else calls it the Buffett Group.



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November 1991

As I watched my precious cargo being stowed into the back of the Volvo, Monsieur de la Mette looked on doubtfully.

"You understand," he said, "I do not know how they will travel. For the last five years, these wines have enjoyed a constant temperature of 16°C in my cellars."

"Pas de problème," I replied, thinking immediately of the climate control. "For the next twenty-four hours they can enjoy the same conditions in my Volvo."

I should say at once that I don't normally use my 760 Estate as a mobile wine cellar, although few cars are better equipped for the task.

Nor do I often buy my wine at M. Henri de la Mette's Château Millet in the Graves district of Bordeaux.

(Oddbins in the Fulham Road is my usual haunt.)

However, when business took me to the area and a well-connected colleague to the château, it seemed a perfect chance to do both.

Which is how, on this lovely summer morning, I came to be explaining the workings of the Volvo's electronic climate control to a somewhat sceptical Henri.

"You dial in the temperature you want here," I showed him, "and then whatever the weather outside the car, the temperature inside stays constant. It even has a sensor that takes account of solar radiation."

I neglected to add that the lowest setting is 18°C, a touch above that of Henri's cellars. After all, it is sudden rises and falls that wine takes exception to, something the E.C.C. would certainly prevent.

Unimpressed, Henri grunted and turned his attention to the seats. "Du cuir?" he barked and prodded them with his stick.

"No, they're leather," I replied and could have bitten my tongue off as, too late, I placed the word.

Politely ignoring my embarrassment, Henri seated himself happily in the front seat and beckoned me to do likewise.

"Bien. On y va."

A little earlier, I had mentioned that I'd be passing through the town of Mussidan on my way home and Henri's eyes had lit up.

It transpired that he, himself, was due in

Mussidan today for a reunion luncheon with old friends.

Naturally, he would not dream of driving to and from such a celebration, in fact he had planned to take the train. However...?

Well, I can take a hint like the next man and I duly volunteered myself as chauffeur for the outward trip.

truck driven by a myopic 70 year-old peasant would come trundling out of a side road, forcing me to demonstrate the Volvo's ABS braking system and my own ability to curse fluently in the local patois.

"Regardez," said Henri mildly and when I did, it was an old lady on a bicycle I saw, not a farm truck, and it

"Very luxurious," he went on, "very powerful."

I rubbed my ribcage and fished about for some suitable compliment in return.

"It's got a lot in common with your wine," I suggested.

Henri looked blankly at me.

"They both improve with age," I



And so, after a last look to check my cases of Millet's finest were safely stowed, I slipped the Volvo into drive and off we went.

Henri expressed an interest in the buttons and switches and I obliged by demonstrating the electric sunroof and wing mirrors, much to his delight. Encouraged and flattered by his interest, I fear I got a bit carried away.

"Very safe cars, Volvos," I enthused. Henri grinned and nodded furiously.

"The safety cage, the crumple zones, very reassuring in the event of an accident."

"Bang," shouted Henri and roared with laughter.

"Bang," I agreed weakly.

I was just explaining how useful the suspension levelling system was on an estate car, when I noticed he'd gone a little quiet.

He had, in fact, nodded off. (Not a hard thing to do in a car as smooth and silent as the 760.)

By now we had passed through Libourne and were on the road to Mussidan proper.

The N89 is an arrow-straight, tree-lined invitation to pick up a speeding fine, especially with 2.8 litres of fuel injected engine beneath your right foot.

Sticking to 90Km/h with such a car is a rather dreary business, and

I'm afraid that whilst Henri dozed, I daydreamed.

Now then, I thought, if this were a commercial, a heavily laden farm

was my fault, not hers.

The ABS did its stuff however and I managed to avoid her, though not the stream of Gallic invective that followed.

Henri laughed fit to bust and I slunk deep down into my seat, hoping the tinted windows would hide my blushes.

When his mirth had subsided, Henri looked around thoughtfully.

"Combien?" he asked, rubbing his thumb and forefinger together.

"Um, £20,495," I replied and began some mental calculations. "That's about -." But Henri was there before me.

"Deux cent cinq mille francs," he said softly and for the first time since he set eyes on the car, he actually seemed impressed by it.

He looked around again, as if seeing it for the first time.

"C'est tout?" he asked, plainly disbelieving.

"C'est tout," I confirmed. "Except for the number plates and delivery."

Henri said nothing more until we reached the outskirts of Mussidan and I asked where I should drop him.

"I will tell you when to stop," he said, then gave me a dig in the ribs that knocked half the breath out of me.

"I like your Volvo," he said, grinning wickedly.

"Thanks," I gasped and wondered what he did to people whose cars he didn't like.

finished lamely.

For a moment I thought he'd misunderstood me, then he beamed in delight. I beamed back at him.

We were still beaming at each other like idiots, when he yelled at the top of his voice, "Arrêtez!"

Convinced that I was about to mow down yet another innocent old lady,

I slammed on the anchors and the 760 stopped as if it had hit a brick wall.

Behind me there came a blaring of horns and a splatter of

expletives.

Ahead of me, where I fully expected to see the mangled remains of a bicycle, there was nought but an empty street.

Henri un-clipped his belt and gestured at the tiny restaurant we had stopped beside.

"Bon. Nous voici. Au revoir, Monsieur."

Displaying an agility well at odds with his age, he opened the door and headed briskly towards his lunch.

Aware of the traffic jam behind, I turned to placate a waspish Frenchman in a battered Deux Chevaux, when Henri's face reappeared magically at the window.

"Damn fine brakes, too," he yelled and vanished again.

As I pointed the Volvo northwards, it occurred to me that if Henri's wines were as volatile as Henri, I was in for some quite fascinating dinner parties.

The new Volvo 760 GLE Estate.

WEST GERMAN ELECTRICITY

Coping with regulation

Caught up in an emotive debate

David Marsh, in Bonn, examines the climate for RWE, a key West German utility

"WE SEE our task as the supplying of consumers with the largest possible quantities of current at lowest conceivable prices."

That was how Rheinisch-Westfälisches Elektrizitätswerk (RWE), West Germany's largest electricity utility, summed up its basic philosophy in its annual report in 1902/03.

More than 80 years later, RWE, now a DM25bn (£9.7bn) turnover conglomerate, has grown into a classic example of the West German breed of mixed-economy corporation owned by a range of private and public sector shareholders.

Its main responsibility still lies in maximising, not profits, but security of supply to its customers across a large swathe of the Federal Republic. Headquartered in the Ruhr coal town of Essen, it is also caught up - like no other utility - in the emotive West German debate over the respective places for coal and nuclear power in the country's energy system.

Because of its long-entrenched generation and transmission network, RWE has traditionally been one of the country's lowest-cost utilities. In recent years, however, the utility's traditional price competitiveness has been eroded, and it has slipped out of the list of the top 10 cheapest power suppliers.

Neither the federal government nor its home state of North Rhine-Westphalia owns a stake in RWE. Additionally, it is only one (albeit the largest) of a host of federally-organised big West German utilities which, in theory at least, could be expected to be in competition.

But RWE is a long way from operating in a free market. Although it is decentralised, every aspect of the West German electricity system is highly regulated.

Despite the build up of heavy over-capacity in recent years, competition among the utilities is minimal.

Apart from the need to fulfill legal obligations to provide near-absolute security of supply, a chief operating priority of the electricity generating industry is to support domestic coal mines through a complex system of long-term contracts and subsidies.

In line with the country's federal system, political influence over the industry comes not, as in France or England, from a centralised point, rather than from a cluster of regional power centres.

RWE employs 70,000 people and accounts for about 40 per cent of electricity produced in the West German public supply network, distributing current to large parts of the states of North Rhine-Westphalia (the most heavily-populated and industrialised German state), Rhineland-Palatinate and Lower Saxony.

Broad spread

It has a broad spread of activities in areas outside electricity generation, accounting for DM14bn, or nearly half its total turnover. The overall RWE empire runs to around 1,000 subsidiary companies in areas ranging from lignite mining and oil and chemicals to electricals and printing machinery.

RWE, traded on all the German stock exchanges, is valued above all as a safe stock which has paid its traditional dividend of DM8 per DMS0 share uninteruptedly for the past 20 years.

Bourse trading interest in RWE shares has spurred sporadically during the past few years on rumours that the company was considering splitting off some of its non-electricity generating participations, and realising latent profits on undervalued assets.

However, RWE has made clear that no such restructuring can be expected in the near future. As an example of the sensitive

political environment in which RWE exists, it has in the past itself launched rumours of a stock-splitting. The threat of breaking up its operations has been a ploy to dissuade the North Rhine-Westphalia state government from taking it to subsidise its electricity prices with profits from buoyant non-generating sectors.

It is by far the largest of the nine dominant utilities (see map) which form the "first level" of the West German power supply system.

The Big Nine own and operate the lion's share of generating capacity and distribute current within their geographical demarcation zones both to final consumers and to smaller regional and municipal utilities.

RWE's capital is majority-owned by an estimated 200,000 private investors, owning just under 70 per cent of the stock. But public sector shareholders, made up of cities and municipalities from North Rhine-Westphalia, control the majority of voting power (just over 60 per cent) on account of their holdings of special issue shares with 20-fold voting rights.

The political influence on RWE is reflected in its investment planning, changing priorities over the last decade bear witness to the fluctuations in overall West German energy policies.

The utility's total installed capacity, both in its own power stations and in plants owned by contractual suppliers, is around 28,000MW, or roughly 30 per cent more than needed to meet estimated maximum daily demand on the coldest day of the year.

Friedhelm Gieseke, RWE's finance director, says that, when allowance is made for mothballed plants, and those temporarily out of action for servicing or other reasons, excess capacity is about 5 or 6 per cent.

Nonetheless, it is clear that,

above all because West Germany's overall electricity demand in recent years has fallen well short of predictions at the end of the 1970s, RWE has considerably more capacity than it needs.

RWE owns the Bilib A and B nuclear plants on the Rhine north of Mannheim, each of 1,200MW capacity, built in the mid-1970s during the heyday of West German optimism about nuclear power. The two Bilibs premixed water reactor plants, then representing the largest nuclear generating complex in the world, were built at a total cost, which now seems laughably low, of only DM2bn.

RWE's latest, and - at least provisionally - last, nuclear plant has just gone on stream in Muelheim-Kaerlich, up the Rhine from Bonn, 14 years after it was ordered in 1975. The controversial 1,300MW plant has cost a total of DM7bn, about five times the initial estimate.

Plans were hatched at RWE during the mid-1970s (when the SPD was in power in Bonn and favoured a nuclear build-up) to construct one 1,200 MW nuclear plant a year. They have been long forgotten.

No decision

Reflecting over-capacity and the current slump in demand, Gieseke says RWE will not decide any new coal-fired power station construction in the next two years. He forecasts that at least five years will go by before RWE orders its next nuclear power station.

In view of the 10 year construction time for West German N-plants, this means that RWE will have no new nuclear capacity at least until the beginning of the 21st century.

The political need to support North Rhine-Westphalia's indigenous energy resources of hard coal and lignite, as well as the

SPD's anti-nuclear stance, is reflected in the utility's generating structure.

Because of nuclear sensitivities, none of its four N-plants is in its home state of North Rhine-Westphalia. During the 1986-87 business year ended June 30, nuclear energy accounted for only 21 per cent of RWE's total generated electricity, with 51 per cent stemming from lignite-fired plants and 22 per cent from hard coal.

This compares with a nationwide share of nuclear generated electricity of 34 per cent in the public supply network last year.

RWE admits that some past investment decisions were influenced by local political pressure to protect jobs. Indeed, a main long-term influence on its power supply structure is the 1980 accord between the utilities and the coal-mining industry assuring that a minimum 45m tonnes of hard coal a year would be burned in the nation's power stations.

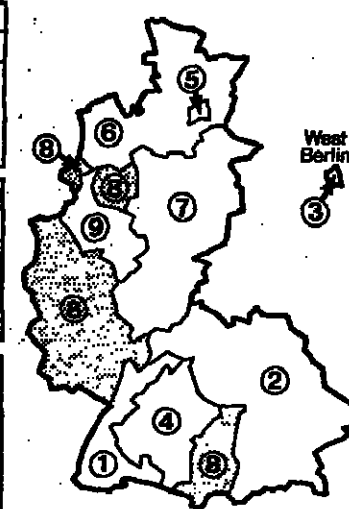
This accord is now in danger of breaking up as a result of government efforts to cut total subsidies to the coal industry and Gieseke says that, without it, RWE would rely simply on a mixture of relatively cheap lignite and nuclear plants. Generating costs of hard coal-fired stations are appreciably higher.

One reason for a rise in generating costs in both lignite and hard coal-burning in recent years has been a large, legislation-inspired, programme of investment in cleaning up power station emissions.

The combined consequences of heavy environmental spending, high capital charges for the Muelheim-Kaerlich plant and a slump in electricity demand has added to pressure on RWE's finances in the past few years.

Large industrial customers have been profiting from the slump in the crude oil price of the last two years to turn to their own oil-fired generating capacity. RWE's electricity deliveries fell

1 Badenwerk Ownership-Mixed Above 75% State of Baden-Württemberg, rest private.	6 NWK Ownership-Subsidiary of PRAEG
2 Bayernwerk Ownership-Public 80% State of Bavaria, 40% Federal Republic	7 PREAG Ownership-Mixed 88.5% VEB, 6.5% Frankfurt, 2.7% State of Hesse, 4.0% others.
3 Bewag Ownership-Mixed 58.3% State of Berlin, 8.6% Elektrowerk AG, 6.6% PRAEG, 24.5% other private.	8 RWE Ownership-Mixed Private majority of nominal share capital; public majority of voting capital with cities & municipalities.
4 EVS Ownership-Public Various regional & municipal public entities, 10.4% State of Baden-Württemberg.	9 VEW Ownership-Mixed 52.56% various cities & regional public entities, 25.32% private holding, 22.12% other private.
5 NEW Ownership-Mixed 73% Hamburg, 27% private.	



THE PUBLIC West German electricity supply system consists of nearly 700 utilities which vary widely in size, function and capital ownership.

The nine main "first level" utilities own and operate not only the majority of generating capacity (including all the nuclear plants) but also nearly all the high-voltage national grid.

The majority of the 74 regional utilities ("second level") have some generating and operating power plants, which supply electricity exclusively to other utilities, from one of the Big Nine, rather than consumers.

Outside the public supply system, industrial companies and the federal railway also have substantial capacity of ("third level") limit themselves to distributing supplies with 66,000MW capacity in via low voltage grids.

2.1 per cent in the 1985/86 business year and 3.8 per cent in 1986/87.

Because of opposition from the North-Rhine-Westphalia Economics Ministry, RWE was able to raise electricity prices in 1986 by only 2.6 per cent, less than the 4.9 per cent increase asked for by the utility. Prices are to remain pegged in both 1987 and 1988.

A public debate has been stirred up and RWE in coming years will have to face up to greater competition both with other West German utilities and with the French utility Electricite de France.

As Gieseke points out, the industry is governed by the tightly-worded 1935 Energy Industry

Act laying down utilities' duty to provide total security of supply.

If West German legislators decided that obligations on energy security should be eased, says Gieseke, then the present regulated distribution system could, in theory, be opened up.

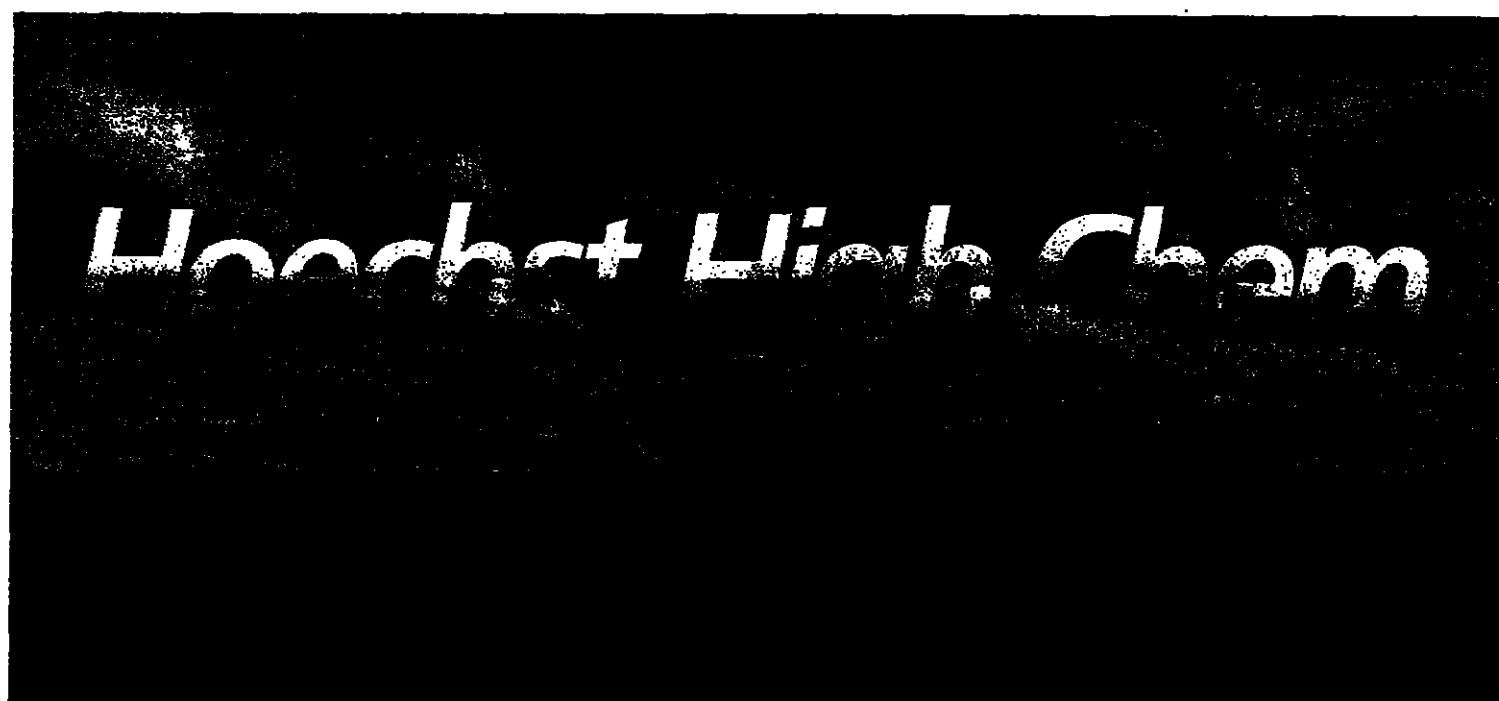
Utilities could then compete with each other by vying to supply electricity at its marginal generating cost. In that case - which Gieseke describes as "picking the raisins out of the cake" - RWE would be more than ready.

But he adds: "This would not be sensible. I cannot see it happening."

responsibility for finance and raw materials at chemical group BASF, one of RWE's biggest customers, is a strong critic of heavy West German electricity regulation.

He has talked in the past to EdF about buying current from France - a possibility ruled out at the moment.

But he is also a realist. He sees little possibility of any modification of the "demarcation zones" or opening up of the regulated transmission network. "I believe," says Mr Schmitz, "that the price demanded by the German utilities for solving the problem over the Jahrhundertvertrag (obligations over energy security) will be to rule out any question of greater flexibility."



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UK NEWS

Exporters welcome Young initiative

By Peter Montagnon, World Trade Editor

BRITISH Exporters have welcomed a letter from Lord Young, Trade and Industry Secretary, seeking their help in promoting exports by small and medium-sized businesses.

The letter to leading trade associations is one of the first direct actions on trade taken by the minister since he took over the trade and industry portfolio this summer.

Exporters see the move as a sign that the Government may be switching to a more active policy of export support.

Separately, Lord Young has also instructed Trade and Industry Department (DTI) officials to begin an inquiry into inter-ministerial co-operation on trade in an effort to reduce red tape.

The DTI said at the weekend that the move on small businesses did not signal a change in the Government's basic policy of providing only minimal government financial support to exporters.

Nonetheless, senior figures in the export industry believe that after a hesitant start Lord Young may now be moving to deal in a more practical way with their problems.

This is an encouraging initiative, said Mr Campbell Dunford, chairman of the British Export Houses Association, one of the organisations to which the Secretary of State has written. In his letter to the associations, Lord Young said small companies wishing to export faced "resource, risk capacity and managerial constraints".

Other countries had mechanisms to bridge this gap, he said, noting the role of Japanese trading companies and West Germany's privately financed industry associations. In a speech last week to construction industry executives, Mr Christopher Patten, Overseas Aid Minister, stressed the important role of aid-financed infrastructure projects in easing Third World poverty. Taken together with Lord Young's initiative this has encouraged some exporters to believe that export policy will now receive closer government attention.

Others warn, however, that such a conclusion remains speculative and that Lord Young's plea for resources to be unwieldy DTI retain a higher priority.

Wide gulf separates BA and BCal over bid price

BY MARTIN DICKSON

A WIDE price gulf will separate British Airways and British Caledonian Group when they meet this week to discuss terms for a fresh bid by BA for its smaller rival.

The mid-week meeting between merchant banks acting for the two sides - Lazard Brothers for BA and Goldman Sachs for BCal - follows last week's go-ahead for a merger by the Monopolies Commission, subject to BA giving up a number of BCal routes.

BCal insists that it still expects BA to pay at least the £200m cash value of the original takeover bid which it made in the summer - before last month's stock markets crash. And it says it is still talking to European airlines about a possible tie-up if a deal with BA falls through.

BA will go into the talks with a much lower offer, which may be pitched around £140m.

The fall in its share price - which closed at 143p on Friday - means that the paper offer it

made for BCal in the summer, then valued at around £237m, is now worth £154m.

Since the summer, BCal has also sold its hotels to Aer Lingus for £30m.

Last week it disposed of its loss-making helicopter division to Bristol Helicopter, although this deal is unlikely to have any effect on the price BA offers.

The widely differing positions are regarded by observers as opening postures. In particular, BCal, which is not in a particularly strong negotiating position, is anxious to prevent BA trying to dictate its own terms.

Sir Adam Thomson, chairman of BCal, said yesterday on Channel 4 television's Business Programme that a tie-up with a European airline was a "meaningful alternative" if a deal could not be reached with BA.

He said BCal had spoken to six or seven European airlines, which he declined to name, although they are thought to include KLM of the Netherlands,

SAS, the Scandinavian carrier, and Air France.

Sir Adam added that during the past few weeks the European groups with which he was negotiating had come up with "practical proposals" and it looked as if the timescale for doing a deal had shortened.

Observers say a full takeover by a foreign airline does not seem a practical possibility because BCal would risk the revocation of its UK licence.

But Sir Adam said it might be possible to strike a deal under which a foreign airline took a large stake in BCal which fell short of giving it control.

Under the terms of the City of London Takeover Code BA has 21 days until December 2 to say whether it is launching a fresh bid.

An important role in deciding the fate of BCal will be played by Sirs, the investment bank which holds 41 per cent of its shares.

Miners' reaction to Scargill election move to emerge today

BY CHARLES LEADBEATER, LABOUR STAFF

FIRST indications of the decision has short-circuited this review.

It is unclear whether the Yorkshire NUM's leadership will support the challenge. But privately Yorkshire NUM leaders are critical of Mr Scargill's decision to plunge the union into an election campaign during its overtime ban over British Coal's disciplinary code, and in the face of the corporation's drive for further pit closures and to introduce flexible working.

The Yorkshire representatives on the NUM's national executive committee, who generally vote with Mr Scargill, are understood to have obtained in Thursday's crucial vote which set the election in motion. Their criticism of the timing of the election is likely to be echoed at meetings in other areas in the coming week.

It is expected that Mr Scargill's Yorkshire supporters will move that the council should recommend that branches nominate him for the presidency in coming weeks. It is thought many in

the area's leadership would oppose such a quick endorsement.

Influential figures within the Yorkshire NUM, opposed to Mr Scargill, last night suggested that if more than 15 delegates voted against a recommendation to nominate him, this would be taken as a green light for an opposition candidate to emerge.

Mr Johnny Walsh, the NUM full-time official in north Yorkshire, said he would consider standing if there was substantial support for him from areas other than Yorkshire.

However Mr Walsh remains largely unknown outside Yorkshire. It is also thought unlikely that traditional left-wing areas such as South Wales and Scotland would happily throw their weight behind his candidacy, because he is judged to be on the union's right.

Mr Des Duffield, the South Wales miners leader will come under strong pressure at the area's monthly conference today to put himself forward as a candidate.

Find out who's won on November 18th.

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AIR CALL

Seamen's union acts to fend off financial crisis

BY OUR LABOUR STAFF

The National Union of Seamen is selling some of its buildings, cutting its staff, and increasing its membership dues for the first time in five years in a renewed attempt to stave off a deepening cash crisis.

According to figures from Mr Sam McCluskie, NUS general secretary, the union recorded a record deficit of £212,116 in its general fund in the first quarter to June.

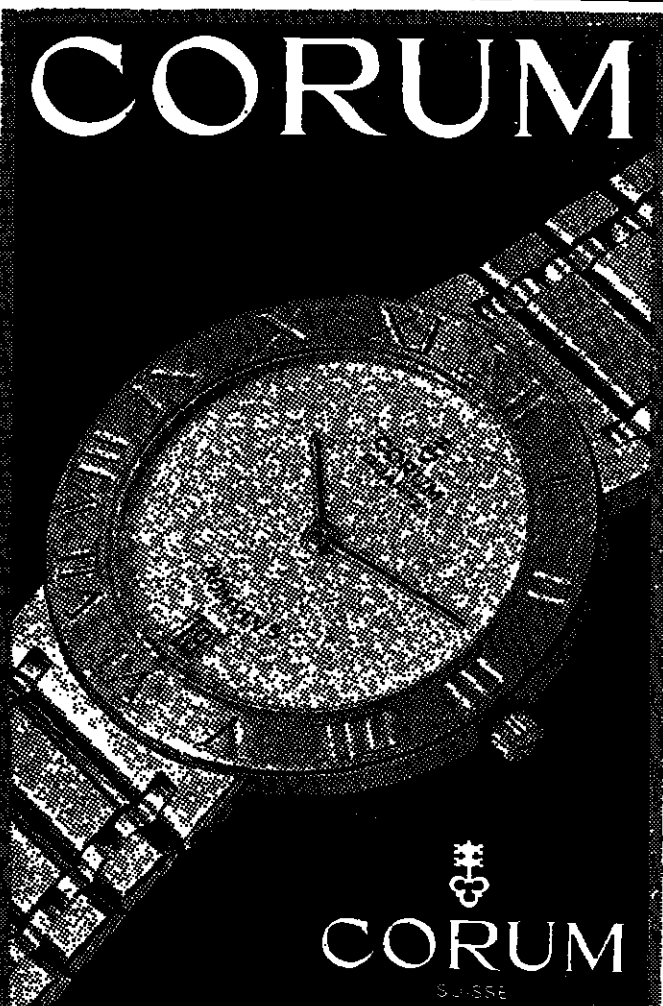
This was nearly double the loss for the corresponding period last year. Accounts for 1986 show a total deficit in the general fund of £446,923 - although this was partly offset by reserves held by regional branches.

The union says its problems

have been mainly caused by a dramatic decline in membership - from 45,000 in 1974 to around 18,000 now.

A recruitment drive among non-unionised British and UK-employed foreign crews has not yet succeeded in offsetting the effects of the general crisis in shipping and the tendency of UK companies to switch to foreign flags and employ outside the NUS.

The union is selling off its branch offices in Southampton and Holyhead, and cutting 23 jobs among staff and full-time officials. Union subscriptions are being raised from £1.50p to £1.80p.



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UK NEWS

DoT considers plan to change crewing of ships

BY JIMMY BURNS, LABOUR STAFF

THE DEPARTMENT of Transport is to examine proposals for radical changes in manning and training in the shipping industry over the next decade.

The move, which could lead to a breakdown of the strict hierarchical structure of crews, appears to indicate a significant policy departure. Up to now, the Government has adopted a laissez-faire attitude towards the industry.

To undertake the study, the department will set up a "strategic policy committee." This will be chaired by officials from the department and will also include representatives from shipping companies, unions, training schools, and the Department of Education and Science.

Its brief will be to draw up a programme of action on the basis of a report commissioned by the DoT, entitled *Technology and Manning for Safe Ship Operation in the 1990s*.

The authors, from the Maritime departments of Liverpool and Plymouth polytechnics, have expressed concern that the Government was ignoring the report, which was completed at the end of last year.

However, the DoT said on Friday that the setting up of the committee "means we're taking the report seriously."

The report suggests that the UK is lagging behind its competitors in developing innovative work structures and training methods capable of ensuring that in the medium to long term it will retain a shipping industry that is both efficient and safe.

British crews are widely viewed as representing a high percentage of operating costs compared with many foreign crews, and there is little sign of interdepartmental flexibility on ships, the report says.

"Even where such schemes were in existence, it was admitted, they were seldom fully implemented," it states.

On training, the study team found that many UK shipowners and union officials believed the blend of experience and theoretical studies which had been undertaken by current seafarers had equipped them to deal effectively with most problems which arise on modern ships, and that little retraining was necessary.

The report recommends, though, that government policies should provide more specific framework for the breakdown of traditional crew structures and the development of new training methods.

One of the study team's more controversial proposals is that companies should eliminate the demarcation between deck and engineer officers and create a new "dual role." Also, crew members of whatever rank should be trained to carry out a wide range of tasks on a non-departmental basis.

Britain should learn from countries such as Japan and Norway in developing a "conceptual vision of the future" and a "national approach" to developing new manning systems with associated training.

The report was welcomed at the weekend by the General Council of British Shipping, the employers' federation.

"It provides useful guidance for the industry in mapping out its future," it notes.

However, Numan, the officers' union, warned that it would oppose any scheme that led to reduced manpower on ships in spite of the advent of new technology.

"We are operating at a bare minimum," the union said.

SDP-Liberal merger talks to be stepped up

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MERGER negotiations between the Social Democratic Party and the Liberals will be stepped up this week in an effort to ensure that a recommended package for the creation of a new party is ready by the end of the year.

Mr David Steel, the Liberal leader, said members of both parties should not prejudice the outcome of the talks. He warned that any splinter group could expect no electoral pact.

Progress has recently been slower than expected, both because MPs were busy in the Commons last week, and because of the detail involved in drawing up the proposed constitution.

The draft constitution is expected to be published next month, while the policy prospectus will be published in January, ahead of conferences called to decide whether the package should go to a full ballot.

Mr Steel, speaking at Keele in Staffordshire, acknowledged that members of both parties would face a difficult decision.

The Liberal leader made clear his belief that the Owenite, anti-merger faction in the SDP would condemn itself to political exile if it decided "to stalk off into self-imposed isolation." No new

party would want negotiations with a tiny but competitive fourth party.

Mr Steel's remarks follow suggestions from supporters of Dr David Owen, the ex-SDP leader, that they should be allowed to stand in a general election unopposed by any new party.

Mr Steel said a new party would not be in the business of electoral pacts. He said: "Those who predict share-outs, whether with Labour or the splinter group who may leave us, should think again."

"The only power of a splinter group will be negative, to confuse and, even if only marginally, to weaken the cause."

Mr Steel's remarks drew criticism from Mr John Cartwright, the SDP MP for Woolwich and a leading Owen supporter. He said Mr Steel was apparently prepared to throw "all the benefits built up by the Alliance over the past few years."

He added: "David Steel seems not to have worked out clearly what he has in mind. He is also speaking for a party which does not yet exist and he has not made clear whether he wants to lead that party."

Younger warns on INF treaty complacency

BY OUR POLITICAL CORRESPONDENT

THE SIGNING of a US-Soviet treaty to remove medium-range nuclear missiles from Europe must not provide a signal for any weakening in Western defences, Mr George Younger, the Defence Secretary, warned yesterday.

Mr Younger, speaking on the BBC television programme *This Week, Next Week*, said it was important for the West not to permit exaggerated expectations to take over its judgment on defence issues after the December summit and the expected signing of an Intermediate Nuclear Forces treaty.

He described as "a very realistic" the possibility that, in the wake of an INF agreement, European defences would be allowed to slip and that the West would reduce its guard. He said any tendency to suggest that strong defences were no longer necessary would be dangerous and destabilising for both sides.

"The danger is that thinking

the world is a lovely place after a treaty of this sort is signed could lead us to believe we do not need any strong defence at all."

Mr Younger, who was echoing remarks made by Mr Caspar Weinberger, the departing US Defence Secretary, stressed he did not believe any such relaxation would take place, because European defence ministers were united on the need to maintain strong defences.

Strong defences alone had succeeded in bringing the Soviets back to the negotiating table to seek an agreement and the Government had already indicated its intention to maintain sound defences and a strong defence budget.

Asked about the future development of Britain's nuclear defences, Mr Younger said co-operation with France was very desirable but there was no disposition in either country to give up one independent deterrent in favour of the other.

Former Commons leader claims 'unfair dismissal'

BY OUR POLITICAL CORRESPONDENT

MR JOHN BIFFEN, who was sacked as Leader of the House of Commons after the June general election, yesterday described his removal from office as "unfair dismissal."

Mr Biffen, the MP for North Shropshire, was dismissed in the post-election reshuffle following his repeated public criticism of Mrs Thatcher's style of leadership. His attacks provoked considerable animosity in Downing Street and he returned to the back benches when the Prime Minister reshuffled her Cabinet.

Speaking on TV-am, Mr Biffen

admitted that he had been hurt by the decision and said he did not believe that, whatever his removal from office was ascribed to him, they merited the scale of the punishment.

Asked about Mrs Thatcher's style of government, he said he thought the Cabinet tended to be "more of a confirming body than a debating and deciding body." He acknowledged that there was plenty of cut and thrust in Cabinet meetings, however, because of strong antagonism between various government departments.

Call for 'ferry doors message' to passengers

By David Churchill

FERRY passengers should be told in clear terms on each sailing that the ship's doors are closed, suggests the Consumers' Association in response to regulations following the Zeebrugge ferry disaster.

Mr David Trench, the association's legal officer, says that "passengers should be told in clear, unambiguous terms on each sailing that the doors are closed and the bridge has confirmation of this."

He believes that such an announcement should be made over the public address system and given in plain English in a form approved by the Transport Secretary.

"The fact of having to display such notices and make announcements will amount to a discipline imposed on the master, crew, ship and owners," said Mr Trench.

"While the disaster remains in the public consciousness, particular attention should be paid to giving passengers information about what the current legal requirements are, and that they have been complied with at the start of each sailing."

Construction industry summer workload 'best since early 70s'

BY ANDREW TAYLOR

THE CONSTRUCTION industry has just completed its best summer for UK work since the building surge in the early 1970s, according to a workload survey issued today by the Building Employers Confederation.

The survey was made in September before the stock-market crash. The fall in share prices has prompted fears that the upsurge in construction activity will not be sustained.

The confederation has 9,500 members and a combined annual turnover of more than \$20bn. It said the survey was the most buoyant since it began compiling workload statistics in their present form, in the mid-1970s.

Of 600 companies questioned in September, a record 62 per cent reported they were working at full or almost full capacity; another 71 per cent said they expected the annual workload would increase this year.

The rise in orders had led to

delays in some parts as contractors faced periodic shortages of materials and labour.

The confederation said just under a quarter of companies questioned had reported serious delays because of manpower shortages, and just under 10 per cent had reported delays caused by material shortages.

Mr John Parsons, confederation president, said the worst-affected materials were those produced from furnaces, such as bricks, steel and glass.

He said it was difficult for furnace operators to gear up quickly when construction activity had risen as fast as it had done in the past 18 months. There were also discrepancies between contractors' definitions of what amounted to a serious delay.

The confederation said buoyant trading conditions had started to show through in higher tender prices, in September.

ber, 55 per cent of companies were expecting prices to rise in the following three months. However, it said the share-prices fall would probably have an impact on business expectations.

The two biggest areas of concern for the industry are office development and housebuilding in south-east England. These have been two of the biggest beneficiaries of the stock-market and financial-services surge.

Mr Parsons said the underlying strength of the UK economy and of company balance-sheets should underpin construction activity in coming months, in spite of the share-prices fall.

He expected that schemes currently planned to start in the next few months would proceed. He did not expect to see any impact on forecast output levels until, perhaps, the start of next summer.

Base rates 'may be cut further'

BY TERRY SYLAND

THE GOVERNMENT, faced with a possible deterioration in the UK current account deteriorating from this year's predicted \$2.2bn to perhaps \$6.6bn next year, may decide to cut domestic interest rates further to curb the current account.

Mr Morgan Grenfell, the UK bank and securities house, says. The firm's specialists on the

UK economy see the deficit on the UK current account deteriorating from this year's predicted \$2.2bn to perhaps \$6.6bn next year and as much as \$8.7bn in 1989.

Mr Steven Bell, Morgan Grenfell's chief economist, believes that the Government is already planning on the basis of 8 per

cent base rates. He also feels rates could go even lower if there is a further significant reaction in domestic credit markets.

The threat to the UK current account could come from a reversal of the surplus on invisible earnings, the Morgan Grenfell economists believe.

Group publishes recommendations for urban renewal

BY HAZEL DUFFY

EMPHASIS should be placed on refurbishing post-war buildings in inner-cities rather than rebuilding decaying Victorian properties, Sir Nigel Mobbs, chairman of Slough Estates, said in a report published by Aims of Industry.

Sir Nigel, chairman of the council of the free-enterprise Aims of Industry, said that until there was "a beneficial differential" or "at least neutrality" between inner areas and green-field locations, the prospects for improvement were grim.

However, investing money solely in property development was not the answer, he said. Advance factories created some jobs but "failed to generate a comprehensive and durable solution."

In intermediate zones, the enterprise of local communities had to be tapped. Initiatives should be co-ordinated by urban development corporations to avoid competition between the public and private sectors for resources.

The Government, he said, had a vital role in the stimulation of investment, acting as a catalyst for change in administration and attitudes and by locating public investment in problem areas.

Recommendations in the report include: ● New employment policies



Sir Nigel Mobbs: grim prospects

should concentrate on creating new businesses, not propping up old. The availability of skill training should be focused on potential job demands.

● Housing initiatives, such as freeing the private rented sector, should be followed through.

● Property disposal boards should be set up to accelerate the sale of public land, and private sector land sales relieved of capital gains tax liability.

The Inner Urban Challenge. Aims of Industry, 40 Doughty Street, London WC1N 2LP. £3.50.

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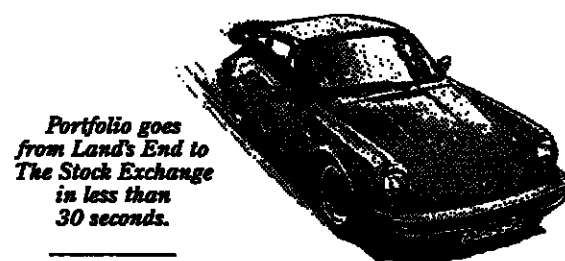
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PORTFOLIO

Environmental problems 'fault of governments'

BY RICHARD EVANS

THE BELIEF that environmental problems are created by private interests and are best solved by public spending and planning controls is challenged in a study published today by the Independent Social Affairs Unit.

Professor Donald Denman, Cambridge Emeritus Professor of Land Economy, says that government intervention has been the cause and not the solution of many environmental problems. He argues in the first booklet in a series designed to promote public understanding of environmental problems, that political interference has exacerbated precisely those problems it was designed to alleviate, and has even produced new problems in a domino effect.

"Mass starvation, the march of the desert on cultivated land, soil loss, air pollution, shrinking tropical rain forests and growing shanty towns are blotches on the world scene, more serious today than ever they were before international agencies and government departments of the environment tried to control and prevent them," he says.

The current plight of Britain's inner cities is seen as a prime example of the failure of centralised planning and of the gap that often exists between the theories

of central planners and their practical implementation.

Professor Denman refutes the widespread contention that the greatest harm done to the environment is by individuals and, in particular, industrial concerns solely interested in the pursuit of short-term profit. He cites a number of initiatives taken by companies and individuals to safeguard and improve the environment in which they live and work.

"A critical anti-industry public should be better informed of the immense financial outlays and commitments of work and time made by environmentally conscious firms," he writes.

He also argues against those who favour lower growth to save the environment, claiming that evidence showed that the worst environmental upsets were in countries and regions where economic growth was low.

"Environmental problems are genuine problems. But the way they have been characterised, often by politically motivated groups, as problems caused by private enterprise and soluble solely by state intervention, is a misleading description of what is a most complex phenomenon," he says.

Property developer attacks BT 'delays'

By David Thomas

HAMPTON & SONS, a large London-based estate agent, has complained that property development in the capital is being hindered by British Telecom.

The firm alleged BT did not carry out promises it made when bidding for business about the speed with which it could install lines.

Hampton & Sons said it had run into such problems on numerous occasions with BT. As a result British and international purchasers had been unable to occupy their houses and flats.

The firm claimed BT was several months behind its schedule for installing lines in a large development in Regent's Park.

Purchasers buying newly-built property in order to rent it out had been unable to do so because the flat lacked a phone, Hampton & Sons claimed.

BT said that there were a few isolated pockets in central London where there had been some delays because of explosive growth in demand, but that some firms appeared to be seeking cheap publicity by attacking BT.

Lucy Kellaway on an extension of the Sex Discrimination Act Equality makes a late arrival on the oilrigs

THE CITY, it is often said, is the last bastion of male chauvinism. But anyone who has stood among the crowds of offshore workers at Dyce heliport outside Aberdeen waiting to be taken out to the oil platforms in the North Sea must have their doubts. Of the 15,000-odd workers employed offshore, about 25 are women, and almost all of these do "women's work" - cleaning and cooking.

For the first time since oil production started in the North Sea more than a decade ago, any woman who feels she is being treated unfairly now has legal protection. At the beginning of this month the Sex Discrimination Act, which previously reached only as far as British beaches, was extended to cover offshore workers.

The Equal Opportunities Commission has been campaigning for such an extension for years, and in 1984 produced a report which found evidence of "almost universal discrimination against women in... the North Sea."

However, now that the change has been made, the commission does not expect any fast or dramatic changes to result.

The only immediate consequence is that companies will no longer be able to cite accommodation difficulties as a blanket excuse for not employing women offshore.

The extension of the law may mean that special arrangements for women will have to be made on some of the older platforms, rather than turn away the best-



Welder Anita Fuglass works offshore for Statoil of Norway

qualified candidates on the grounds of their sex.

However, to judge from the bored reaction of the major oil companies, the change in the law has passed with minimum of soul-searching.

All the oil companies which operate in the North Sea claim to have been applying the equal opportunities act offshore in any case, and see no need to change their recruitment policies.

The problem, say the oil companies, is that women simply do not apply for offshore jobs, despite the companies' efforts to encourage female applicants.

woman on the Beryl platform about five years ago, there were no women working on offshore platforms at all.

All the newer platforms have been built with women in mind, and include single or twin-bedded cabins, rather than dormitories with four or more beds.

On BP's newly-built Magnus platform, for example, the concentration of women is one of the highest on the UK Continental Shelf, with a grand total of three out of a staff of 140. Of those three, two are technical clerks and one a nurse.

The record is slightly better among professional workers, such as geologists and engineers, who visit platforms from time to time but do not live there. Altogether there might be a couple of dozen women in this category who make frequent offshore trips.

In Norway, by contrast, the prospects for women working offshore are relatively bright. Compared with a fifth of 1 per cent in the UK, on the Norwegian side of the border 5 per cent of the offshore workforce is made up of women, and the proportion is increasing quickly.

While most of these are caterers or professional geologists, there are about 60 basic manual and technical jobs working offshore, and one platform even has a woman in command.

Statoil, the state-owned oil company, says it has a specific programme to promote women within the company. All female

geologists and engineers are given the chance to work offshore, as those who do not have the experience will quickly find that their careers suffer as a result.

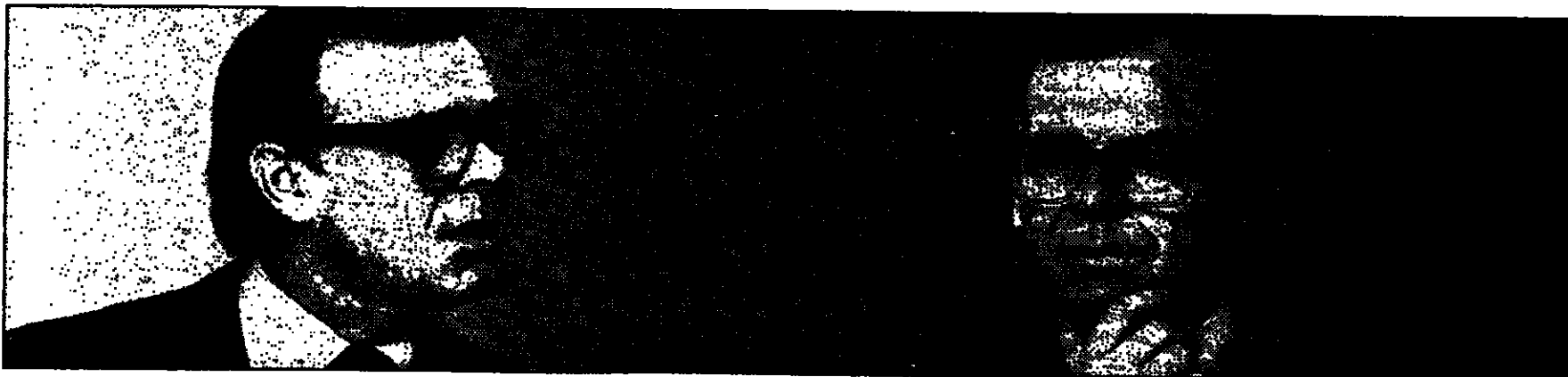
The Norwegians have come to recognise that there is no reason why women should not do "men's work" offshore. Following improvements in much of the offshore equipment, there are almost no offshore tasks that a fairly fit woman would be unequal to.

The difference in attitude is well-rooted in the history of the two countries. Women have traditionally been accepted on Norwegian whaling vessels, whereas in the UK until recently it was regarded as positively unlucky to have a woman on board.

This is still reflected in the atmosphere on either side of the North Sea divide. While on platforms in the UK sector rough workers stare at the few female visitors, and refer to women geologists as "dollywags", in Norway the male workers are more civilised. Ms Kari Mo, a general hand on the Statoil field, says that her most embarrassing moment was when an empty-handed male worker offered to carry her load for her.

The Government may itself doubt what effect the change will have. According to the Equal Opportunities Commission, the motivation for the change was not to improve prospects for women in the North Sea, but pressure from the EC's equal opportunities programme.

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Sovereign loans tax ruling pressed for

BY RICHARD WATERS

PRESSURE IS growing on the Inland Revenue to rule on the tax position of large provisions against sovereign loans made by the main banks this year.

Uncertainty about whether such provisions were tax-deductible was damaging and made the banks' planning of their tax affairs impossible, said Peter McInnes, the accountancy firm which claims to work for 40 per cent of City financial institutions.

Mr Roger White, head of the firm's tax department, said banks stood to lose out even if they eventually obtained full relief on the provisions. There were three dates by when banks wanted certainty in their tax position.

● The end of their financial year - for the big clearing banks, December 31 - so they could arrange to minimise tax bills; this could include writing leasing

business, or realising more losses within the year than might otherwise have happened.

● Early next year, when the same banks draw up accounts; if they have had no word from the Revenue they would have to be prudent and set aside the full tax, ending into capital bases.

● 12 months after the financial year's end, when the tax actually fell due. Mr White said interest on overdue tax was charged at penal rates; whereas banks which paid too much tax and obtained a refund were not adequately compensated for damage to cashflow.

The Bank of England has encouraged banks to increase provisions against possible losses on sovereign lending. It is understood to be having discussions with the Revenue for some months, without agreement.

Accountancy groups unveil strong fee growth

BY RICHARD WATERS

ARTHUR ANDERSEN and Ernst & Whinney, two of the "Big Eight" accountancy firms, have reported strong fee growth in their latest financial years, signalling another buoyant year for accountants.

Andersen's fees jumped 20 per cent to \$2.315bn (£1.3bn), while E&W's fees rose 19 per cent to \$1.778bn.

Other firms, which will be reporting their results in the coming weeks, are expected to show similar advances.

The high growth rates of accountancy firms, which have continued for most of this decade, have come from diversification away from the traditional audit base. They also owe much to a strong bill market, which has brought advisory and reporting work on the back of takeovers and share issues.

Mr Elwyn Ellidge, E&W senior partner in the UK, said yesterday that recent events in

financial markets would not halt growth. Diversification into new areas of business would continue to generate business, he said.

E&W's experience in the UK, where fees leapt by nearly a quarter to £109m, illustrates how

audit and accounting work provided 60 per cent of the UK firms' slightly greater proportion than at other large accountancy firms. E&W has been slower than others to branch out into management consultancy.

Extensive investment made this year should change this, said Mr Ellidge. Although fees from management consultancy grew only marginally to \$6m, they should almost double next year, he said.

In spite of the investment, partners of the firm saw their earnings increase, said Mr Ellidge. Accountancy firms, as senior partners, are not obliged to report their profits.

Midland Bank to launch small business service

BY CHARLES BACHELOR

MIDLAND BANK is stepping up its efforts to woo the small businessman with the launch later this month of Credo, a banking and advisory service aimed at recently started businesses with annual turnover of up to £100,000.

Midland is the latest bank to increase its marketing effort aimed at small companies. National Westminster last month launched an electronic banking service for the sector, while in September Lloyds announced free banking for new small business clients.

The Midland package includes six months of free banking for new clients, an interest-free overdraft of up to £1,000 for three months and a discount of half a percentage point on small business loans if repayment insurance is arranged. The bank charges 7.5 per cent for secured loans and 8 per cent for unsecured loans.

In addition, new customers will be charged 55p for each account item after six months with a notional allowance of 1.5 per cent on credit balances, will have an automatic review interview with their bank manager nine months after the account is opened, and will be offered insurance advice on their equipment and premises. They will also be given a 20 per cent dis-

count on an accounting package provided by Safeguard Systems, an accounting systems company.

Credo has much in common with other banking packages for small businesses but places more emphasis on the need for clients to meet certain formal criteria before the financial services are provided.

Mr Kevin Gavanagh, UK marketing director, said clients would be expected to present an acceptable business plan, provide evidence they had received some business training and show they understood the need for financial controls of their business.

The bank hopes to add 15,000 small business customers next year as a result of Credo, in addition to the 35,000 to 40,000 it would have expected to attract. It already claims to have 500,000 small business customers or 30 per cent of the market for companies with turnover of up to £1m.

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Cost of training by employers 'rises to £5bn'

By CHARLES LEADEATER

EMPLOYERS SPENT about £5bn on training in 1986, according to the most comprehensive assessment yet of training expenditure, published today by the Manpower Services Commission.

The study, commissioned by the MSC from Deloitte Haskins & Sells, the accountants, says training expenditure is more than one third higher than previous estimates published by the MSC in 1984.

These put spending on training by employers at about £3bn in 1984 prices. But the estimates were based only on spending by private sector companies in manufacturing, construction and service industries.

The 1986 estimates, however, have been based on data from British employers spent less on training than their international competitors. However, the figures have been widely criticised by several leading manufacturing companies because they exclude the training expenditure of central and local government and the nationalised industries, while figures for other countries often include the public sector.

The Deloitte Haskins & Sells study, which is intended to set the framework for a much more detailed analysis of training expenditure due to be published next year, acknowledges the omission of the public sector is a serious drawback as it is a major provider of training. Central government, for instance, is responsible for nursing training which

costs about £300m a year.

The revised estimates assume that public sector employers spent about £200 a year per employee on training, the same as private sector employers. This implies that nationalised industries and other public corporations spent £300m on training in 1984, central government £400m, and local government £50m.

Spending by all employers, excluding the armed services, was likely to be about £4bn in 1984, rising to about £5bn last year, the study concludes. In addition training in the armed services was recorded as estimated to cost about £1.5bn a year.

The report says that most of the money is provided by employers with only 5 per cent of training funded by Government grants. However, an increasing number of employers are using the MSC's Youth Training Scheme to fund initial training.

The report argues that more detailed studies will have to focus on a set of key issues, including whether the Government should introduce a statutory system to compel employers to spend more on training.

Today's framework study will be followed by a survey of individuals carried out by the Policy Studies Institute, research into vocational education and training providers by the Tavistock Institute, and three studies of employers conducted by a variety of research bodies.

Information service wins DTI's backing

By MICHAEL SHAPPIER

THE BRITISH Institute of Management will today unveil a service to enable managers to receive training material and other information through their own desktop computers.

The initiative, called Helpline, will provide managers with access to the BIM's own database of abstracts of books, articles and other information.

It will also provide managers with access to other databases, as well as to education and training programmes.

Helpline will be presented to the BIM's national management conference in London today, which will begin to function in April next year.

Mr Peter Benton, the BIM's director-general, said that the Institute's current system of providing managers with information by telephone, fax or letter was also being expanded.

He said the Helpline project had so far received £20,000 of funding from the Department of Trade and Industry.

The BIM will also announce

today the setting up of a new diploma in management practice. Eighteen part-time modules will be offered, including courses in customer care, negotiation and marketing.

Managers will study for the diploma over two years. Under an agreement with the Open University, they will be able to receive the Institute's professional diploma in management at the same time.

Mr Benton said the BIM's diploma should not be confused with the proposed national management qualification currently being discussed by the "charter group" of leading British companies.

He said that when the new national qualification was introduced, the BIM's diploma would form a part of it. Fellows of the BIM would play a part in tutoring managers who were preparing for formal qualifications.

Mr Benton added that 800 BIM Fellows had already applied to serve as management tutors.

Local labour clauses are legal, authorities told

By ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE GOVERNMENT is incorrect in claiming that European Community rules make local labour clauses in public contracts unlawful, according to a legal opinion obtained by the Association of London Authorities.

The association has been advised that the Government's claims are "based upon a misunderstanding of EC legislation and are erroneous."

Councils in inner cities often try to use local labour clauses under which contractors agree to give a specified proportion of jobs to local people - as a means of tackling high unemployment.

The Local Government Bill now before parliament seeks to prohibit councils from imposing such forms of contract compliance on contractors.

Mr Nicholas Ridley, Environment Secretary, told the Commons in July that he had originally hoped it would be possible to include a provision in the bill to allow authorities to promote employment prospects of inner city residents through the contracts process.

But, he said, it had subsequently become clear that EC rules designed to ensure equal

conditions of competition did not permit such measures.

A summary of a legal opinion published by the association yesterday argues that there is nothing in EC legislation which prevents a local authority from imposing local labour conditions in contracts.

The opinion says such conditions would not, in themselves, contravene community requirements designed to prevent discrimination against workers on grounds of nationality.

The association represents the 15 Labour-controlled London boroughs, but it claims the support of local authorities of all political persuasions and other organisations in its campaign to keep local labour contracts. Last month the Institute of Personnel Management produced a report which concluded that, as well as promoting fair employment and training practices, contract compliance made good economic sense.

Next week, Labour members are expected to seek to amend the Local Government Bill at its Commons committee stage to allow for the continuation of contract compliance policies.

Offset deals expected to play greater role in trade

By PETER MONTAGNON, WORLD TRADE EDITOR

OFFSET ARRANGEMENTS are expected to play an increasingly important role in international trade over the next decade, as more importing governments seek to derive long-term technological, investment and incremental foreign currency benefits from large-scale overseas purchases.

This is the key conclusion of a new report on offset business published by Financial Times Business Information. Offset differs from traditional counter-trade in that instead of pure barter it involves exporters in helping arrange compensatory business to offset big equipment sales.

Its authors, Mr Gilbert Nockles, countertrade director of Midland Bank, and Mr Alan Spence, editor of International Trade Finance newsletter, argue that

some of the Western world's key customers, notably the Soviet Union, China and India, are likely to insist increasingly on offset arrangements.

As a result offset arrangements are likely to start expanding outside the defence and aerospace industries which have been mainly affected in the past.

"Buyer governments are increasingly recognising the benefits, particularly in the field of high technology, which can flow from successfully leveraged offset programmes," it says.

"An expanding number of smaller companies will also need to respond to the growing practice by lead contractors."

Offset 1990s, Financial Times Business Information, Tower House, Southampton Street, London WC2E 7HA. £200.

Hazel Duffy takes a look at the objectives of the International Fund for Ireland Trying to resolve conflict through progress

THERE IS a hill in county Armagh which has sparked a rare occurrence in Northern Ireland politics. Plans to reconstruct a cultural centre on the site of the ancient Navan fort won support from all the political parties.



Northern Ireland Secretary Tom King, at the time of the accord looked forward to the fund being of 'real practical value to both communities in the province'

The International Fund for Ireland, set up as a consequence of the Anglo-Irish Agreement, has agreed to contribute £80,000 to the project.

Not many of the prospective projects being considered by the fund can be expected to have the same symbolic importance as Navan. Its administrators are charged with the difficult task both of identifying schemes which fall within the objectives set out in the formal agreement to establish the fund, and which qualify with the informal guidance given by the US Government, the main sponsors of the fund.

The agreement was signed in London and Dublin in September 1985, nearly a year after the Hillsborough Agreement. Mr Tom King, Northern Ireland Secretary, looked forward to the fund "being of real practical value to both communities in Northern Ireland."

Its objectives are "to promote economic and social advance and to encourage contact dialogue and reconciliation between nationalists and unionists throughout Ireland."

The Americans have made it clear that the fund should complement the activities of existing

agencies, not replicate them. They want the emphasis to be on economic projects which are distinctive from schemes funded from other sources.

The sponsors of the fund are the US (\$55m (\$48m) handed over for the first two years, another \$55m planned for the third year; Canada (\$10m over 10 years, from the public and private sectors); and New Zealand (\$300,000). The Australian Government had said it would contribute, but has withdrawn on grounds of public spending constraints. The Americans want approaches to be made to European governments, but this is complicated by the European Community's own funding of economic and social projects.

The fund's administrators, however, have been concerned

with finding worthy projects on which to spend the money. Earlier this year, they put advertisements in the Irish newspapers inviting applications from would-be beneficiaries. More than 1,700 poured in, some of which are still being assessed. Inevitably, the hopefuls who have not yet heard whether they are to be successful have accused the administrators of needless delay.

It was not difficult for them to measure the applications against specific criteria. The fund can only be applied to projects which benefit the six counties of Northern Ireland, and the six border counties of the Republic (as defined for European Community purposes). Three-quarters is to be spent in Northern Ireland, the remainder in the Republic.

The geographical sources of applications suggests that the Unionist parties' call to their supporters to boycott the fund, which they called "blood money" in line with their opposition to the Anglo-Irish agreement, have not been heeded.

Projects must also satisfy the broad objectives. Numerous applications for setting up nursing homes, for instance, did not qualify. Nor did requests for money towards purely artistic and social schemes, or some for improvements to the infrastructure which are the responsibility of the public sector.

Some that have qualified include the fitting out of a fisheries training vessel in Greencastle, Donegal. The vessel was already there, hence the location. Fishermen from Northern Ireland will go over the border for training - more logical and cheaper than the alternative on mainland Britain.

Others are commitments to Queen's University in Belfast for technical services to industry, and \$250,000 to Ulster University to fund a development chair in information technology. Up to \$480,000 has been committed, together with EC and local authority money, to convert a disused factory in Londonderry to workshops.

The most challenging decisions, however, will face the two venture capital companies - one in Northern Ireland and one in the Republic - that were set up by the fund last month, with

funds of \$5m and £5m respectively. The plan is to invest in high-risk projects, to fill the gap left by the banks and other venture capital funds. The return looked for on investments, preferably between £50,000 and £500,000, will be lower than by the private funds.

The first three projects lined up are a micro-electronics manufacturing scheme, baby apparel, and a salmon farm. The last looks unlikely to get going, however, because it has been refused an environmental licence, on which the funds were conditional.

Another category which the fund has allocated money to is business enterprise, designed to stimulate local enterprise through loans and financing advisory teams on start-ups. Tourism, exchanges of managers and students, innovation support and farm product diversifications are other broad categories that have been identified.

The specific tasks of choice and administration will have to be carried out with the help of various agencies. The tiny staff of the fund, directed by a board with members drawn from both sides of the border, does not have the expertise and resources. The US Government has been assured that the agencies will be closely monitored to ensure that American taxpayers' money is being spent correctly. If money was ever to get into the hands of para-military groups, the repercussions would be unthinkable.

Safel to market electric appliances

By Christopher Parkes, Consumer Industries Editor

SAFEL, the Spanish appliance maker, is to try to move back into the UK white goods market after being squeezed out during the 1970s price war.

Its Super Ser brand washing machines and refrigerators should be back on sale by next spring, according to Mr Peter Downs, manager of Safel's UK subsidiary.

"The trade seems more sensible now, and there is room for quality products at reasonable prices," he said.

Safel, based in Pamplona, is aiming at the middle of the market, with washing machine priced at about £900.

Mr Downs claimed the company, formerly known as Orbelec, had 5 per cent of the UK refrigerator market before competition from low-cost East European makers forced it to withdraw 15 years ago.

Since then Safel has built up \$8m-a-year sales of domestic bottled-gas heaters, and claims a 35 per cent share of the market in Britain.

Mr Downs said the heaters had established the Super Ser brand name. This, together with the relative stability of the appliances trade, had encouraged the company to try again with white goods.

HOW MANY DRIPS DOES IT TAKE TO RUIN YOUR COMPANY?



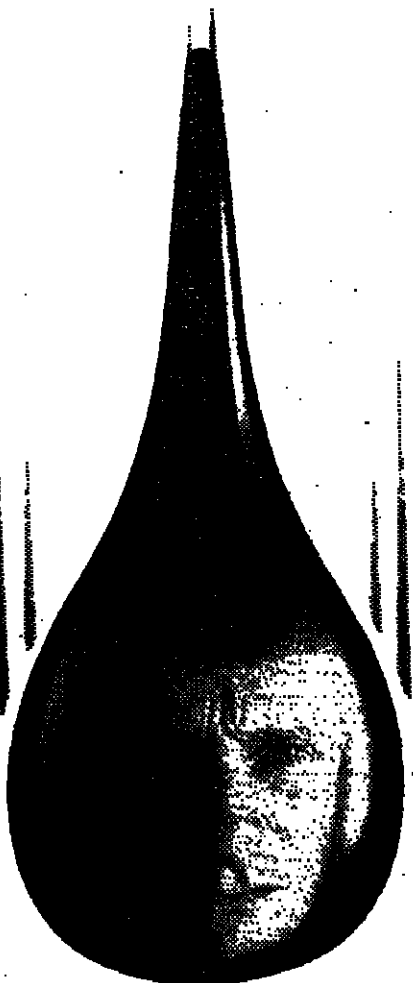
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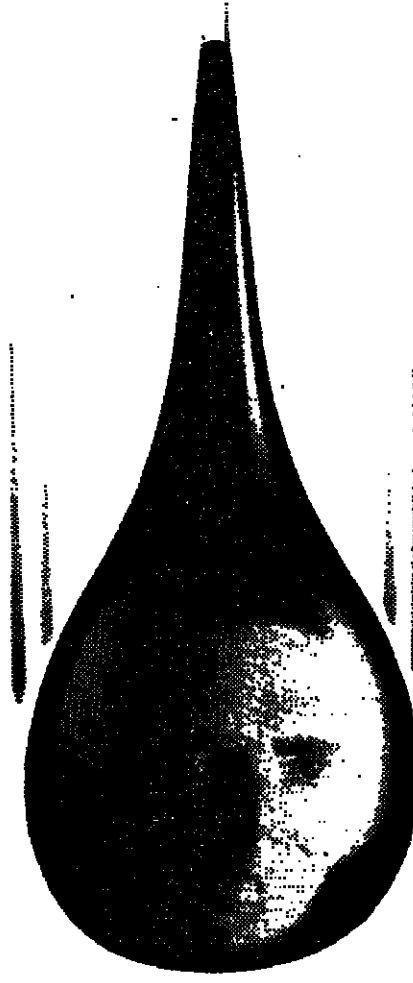
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Toymakers introduce safety symbol

By Fiona McIlwain

BRITAIN'S toymakers are to introduce a safety mark, called the lion mark, which will tell shoppers that toys conform to the current British Standard for toy safety.

The move to brand goods with a guarantee-of-safety symbol is inspired by the British Toy & Hobby Manufacturers Association, which represents more than 95 per cent of those involved in the UK's £900m toy industry. Manufacturers are keen to reassure the public that toys on sale in Britain are made to the highest standards in force.

Manufacturers also believe that, by identifying toys that conform to the stringent safety and quality regulations known as BS 5666, the lion mark will help to stamp out the flourishing counterfeiting trade, which gives the industry a bad name by producing unsafe toys.

The association has been prompted to make the move by cases such as that of the small girl who choked and died on the simulated hair of a toy pony's mane.

The symbol, a lion's head inside a triangle, is expected to appear on toy packaging in British shops next year and to be in full force by Christmas 1988. Any manufacturers selling toys in Britain may apply for use of the mark.

Slow growth forecast until end of century

By Philip Stephens, Economics Correspondent

BRITAIN'S economy for the rest of this century is likely to be characterised by high unemployment and relatively sluggish growth, according to a review of long-term prospects published today by a group of leading economists.

In its latest assessment of the outlook for the economy and industry up to the year 2000, Cambridge Econometrics forecasts an average annual growth rate of 2.4 per cent for the rest of this decade and a projected fall to just under 2 per cent during the 1990s.

Living standards will therefore continue to rise, but at a slower pace than during the past few years. Unemployment is forecast to fall only fractionally to 2.7m by the end of the century.

The next 15 years will be dominated by shifts in the balance of the economy as North Sea oil output declines, the report says. "In the short-term this means the replacement of consumer spending as the engine of (slow) growth by investment and exports. In the medium and long term, the fall in oil production means improved output prospects for those industries which can benefit from a lower value of sterling."

The group expects manufacturing output to continue to grow quickly, at least as fast as the services sector. But faster productivity in manufacturing means that most of the jobs created will continue to be in the services sector. The share of services in national income is

expected to reach 50 per cent by the end of the 1990s.

In spite of growth in manufacturing production averaging 3 per cent a year, the gap left by North Sea oil exports is likely to mean that Britain will face current account deficits at least until 1996. That in turn will put downward pressure on the pound and limit any further progress in reducing inflation.

The study's projections point a cumulative depreciation in sterling's value of 20 per cent by the year 2000 and to an average inflation rate of between 4 per cent and 6 per cent.

Cambridge Econometrics Autumn Report, 21 St Andrews Street, Cambridge CB2 3AX. Price £1,600.

National Savings funds fall

By Paul Cheeseright

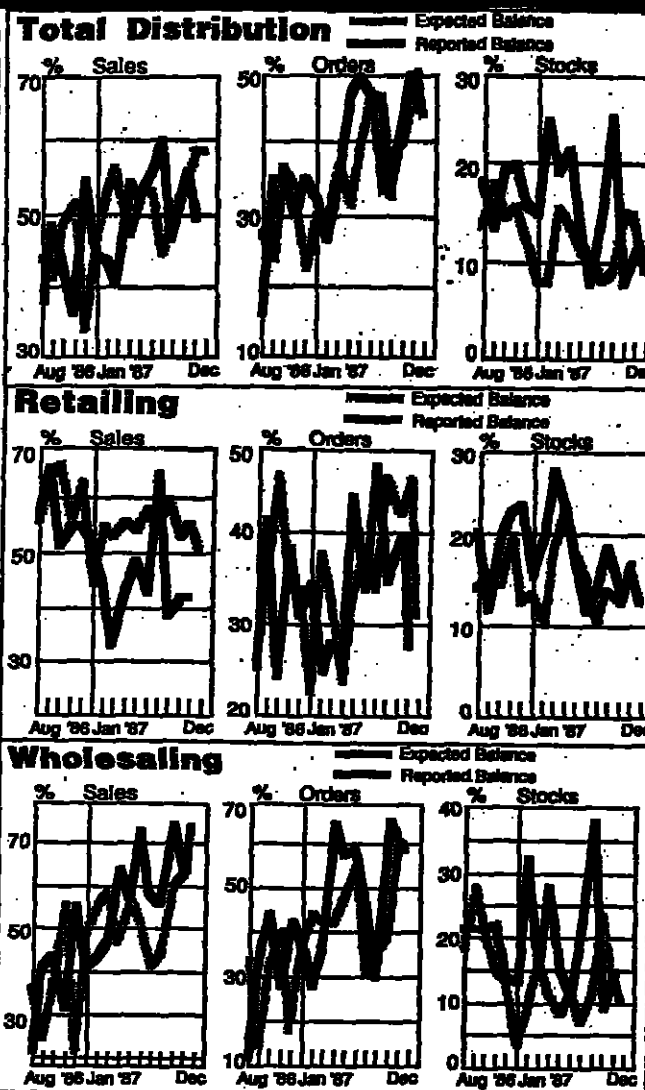
NATIONAL SAVINGS lost further ground last month as investors withdrew more cash than they deposited in the state-controlled bank. Figures out yesterday show the bank received £438.6m from investors but paid £642.3m, a £203.7m gap. There was a £42.3m deficit on the bank's contribution to state funding. This is the third consecutive

month the bank has failed to attract more funds than it has paid, with its interest rates less attractive to small savers than those of building societies.

Repayments of £196.8m on fixed-interest certificates and of £94.4m of accrued interest on them were the main single factor in the loss. Investors bought just £31.6m of fixed-interest certificates.

There were also repayments of £125.8m on investment accounts but this was offset by an incoming £128.7m. Income bonds drew £149.5m against £66.8m repayments. Ordinary accounts drew £55.6m and saw £51.6m repayments.

Total funds invested in the bank's products at the end of last month was £36.5bn, £2.7bn more than a year before.



CBI/FT DISTRIBUTIVE TRADES SURVEY

Retail sales rising despite share slump

By Ralph Atkins

THE SLUMP in share prices had little effect on Britain's high streets in October, and retailers are confident of strong sales growth in the run-up to Christmas.

The Confederation of British Industry/Financial Times distributive trades survey, published today, shows retail sales continued to grow steadily last month. The increase was not as large as expected, but for most of this year the survey has consistently shown retailers' forecasts being frustrated.

Out of 292 retailers questioned, 57 per cent said sales in October were higher than in the same month last year, and 15 per cent reported a decline. Good sales volumes for the time of year were reported by 84 per cent of retailers, while 10 per cent said they were poor.

The results match official figures, which showed retail sales falling in September but the long-run trend remaining firmly upwards. Sales in the next few months will be helped by mortgage rate cuts, the continuing rise in real incomes, and Christmas.

However, there is some concern among retailers that high street shops may be hit by increased uncertainty and the falling wealth of consumers following the slide in world stock markets. This, the CBI says, is not yet apparent from its survey.

Mr Nigel Whitaker, chairman of the survey panel, said: "The average shareholding is still relatively small and, as such, the wealth effect resulting from the fall in equity prices is unlikely to reduce significantly consumers' expenditure."

For November, the balance of retailers expecting an increase in sales compared with the same month in 1986, minus those

expecting a decrease, was plus-50 per cent. This compares with a balance of plus-56 per cent expecting an increase in October and plus-52 per cent in September.

Grocery, footwear and leather goods shops reported the best sales increases in October. Grocers and clothing retailers were most optimistic about sales growth in November.

The survey shows growth in orders placed by retailers slowed more than expected, with a balance of plus-28 per cent ordering more than the same month a year before. Stocks built up slightly more than expected in October but a small run down is expected this month.

Among wholesalers, a balance of plus-62 per cent said sales increased in October compared with the same month in 1986. This compares with a balance of plus-73 per cent reporting increases in the year to September and plus-67 per cent in the year to August.

More wholesalers than expected said sales were good for the time of year. The balance of plus-67 per cent reporting that sales were good was the highest since the question was first asked in January 1986.

The most positive sectors were wholesalers of durable household goods, food and drink. A balance of plus-72 per cent of wholesalers expect increased sales in November.

Motor traders sales volumes in October were much lower than expected, with a balance of plus-14 per cent reporting an increase. This is the lowest balance since November 1986.

However, orders placed by motor traders were better than expected. A balance of plus-16 per cent expect sales to increase in November.

OFT may launch probe into holiday complaints

By David Churchill, Leisure Industries Correspondent

THE OFFICE of Fair Trading is closely monitoring a sharp increase in the number of complaints from disgruntled holidaymakers this year and could decide to mount an investigation into the background to the complaints.

Complaints from holidaymakers made to the Association of British Travel Agents, which represents more than 90 per cent of the travel trade, have risen by 35 per cent this year.

This is estimated to have cost the travel trade a total of £21m in 1987, including administration and compensation.

The high level of complaints led Sir Gordon Borrie, director general of fair trading, to warn travel agents last week at their annual conference in Innsbruck not to make exaggerated claims in holiday brochures.

He also criticised the travel trade's unwillingness to accept responsibility when complaints were made.

"There is a defensiveness when there is a complaint to try to shift responsibility down the line," said Sir Gordon.

The OFT is concerned that with a new price war in the travel trade looming - following

Thomson Holiday's decision to cut its prices by £18m - both travel agents and tour operators could reduce both levels of service and safety.

Many in the industry blame last summer's fierce price discounting for the increase in complaints. Analysis of the complaints figures made to ABTA show that many were from holidaymakers who had bought discounted holidays.

"The cheaper they pay the more they complain," was the comment from one tour operator.

Mr Vic Fatah, managing director of Redwing Holidays - formed last month out of the merger of Sunmed and British Airways Holidays - has already decided to end special "mystery" holiday deals, whereby the consumer does not know the destination at the time of booking.

The complaints rate on this type of holiday rose by 45 per cent this year, compared with an average for the whole Redwing group of 22 per cent in comparison with 1986.

Not counting such last-minute cheap "mystery" holidays, the complaints ratio dropped to just 3.6 per cent.

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British Airways pre-tax profits up by 65% to a record £232m, for the first half year to 30 September 1987.

Airline turnover increased 17% to £1822m, producing earnings per share of 20.9 pence. Interim dividend of 2.25 pence per share payable 15th January 1988.

A sound performance with 15% more passengers and 15% increase in cargo carried.

New services introduced from London to Grenada and from Birmingham to Hamburg. This winter from London to San Juan and Luxor, Manchester to Barbados and Orlando.

New aircraft fleet ordered - 11 Rolls-Royce powered Boeing 767s for use on domestic and European routes.

Formed new international reservations consortium - Galileo.

Acquired top US computer consultancy Bedford Associates Inc.

Created new joint venture of package holiday companies with Sunmed.

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200	Am. Int. Ind. CULS	200	10.0	5.0		
800	Amalgamated and Rhodes	32	4.2	13.1	4.5	
4,968	BBB Design Group (USM)	60	+10	2.1	3.4	9.6
105,724	Barton Group	162	-3	2.7	1.7	27.7
9,482	Bryl Technologies	164	-1	4.7	2.9	13.1
928	CCL Group Ordinary	265	-3	11.5	4.3	6.8
1,698	CCL Group 12pc Conv. Pl.	135		15.7	11.6	
19,743	Carborundum Ordinary	155ad	-4	5.4	3.5	13.5
728	Carborundum 7.5pc Pl.	104		10.7	10.3	
2,842	George Elsh	154ad	-4	3.7	2.4	4.0
7,329	Inta Group	92	-4			
10,207	Jackson Group	98ad		3.4	3.5	10.8
24,923	Multimedia TV (AmstSE)	320		5.5	4.4	4.9
17,500	Record Holdings (SE)	70		0.1		14.1
5,078	Record Hldgs. 10pcPl. (SE)	114		14.1	12.4	
622	Robert Jenkins	59	-1			2.6
5,580	Serotec	124ad		5.5	4.4	4.9
6,023	Torrey and Carlsile	212	+1	6.6	3.1	10.3
3,012	Trevelin Holdings	70ad	+1.8	0.8	1.3	6.4
11,000	Unilever Holdings (SE)	55ad	-10	2.8	5.1	10.1
65,350	Walter Alexander (SE)	165ad	-15	5.9	3.6	22.2
4,648	W. S. Yeates	200	17.4	8.7	20.0	
4,240	West Yorks. Ind. Hosp. (USM)	135	-5	5.5	4.1	14.3

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Monday November 16 1987

Italy returns to old ways

THERE ARE two ways of looking at the events which prompted the resignation of the Italian prime minister, Mr. Ciriaco De Mita, on November 15. One is to see it as a sign of the crisis in the five-party coalition government, the other as a sign of the crisis in the Italian political system. The latter is the more cynical and, at a time when economic conditions, if nothing else, dictate a modicum of political stability.

The other is to lament the fact that Italy is returning to its old political ways, but to hope that the Liberals have delivered a salutary reminder to the country's need to face up to evident political and economic weaknesses. On this view, some of the guilt must be shared by the habitual and rival stage managers of recent Italian political crises, the leaders of the Christian Democrat and Socialist parties.

Certainly, if Mr. Ciriaco De Mita and Mr. Bettino Craxi had seen eye to eye at the end of July, the Ciriaco Government would have been launched on a stronger basis than a fragile agreement over a set of policy priorities.

Consumer demand

The absence of a firm Christian Democrat-Socialist understanding to sustain a coalition well into the lifetime of the parliament elected in July left Mr. Ciriaco in charge of a shaky administration. Lacking the experience and authority to provide strong direction, Mr. Ciriaco has been constantly distracted by the need to organise agreements between the coalition parties on the sudden problems which beset all governments.

With some help from Mr. Ciriaco, Mr. Ciriaco managed to dispatch a task force to the Gulf. With Mr. Ciriaco opposing, he failed to line up the divided coalition behind his proposed legislation for tackling increasingly disruptive public sector strikes. Most seriously, the Ciriaco Government was not properly organised behind a coherent strategy for the 1988 budget.

It produced one set of proposals at the end of September which would have been mildly stimulatory, mildly inflationary and which would have left the public deficit unchanged at L109,500bn (about £14.5bn) two distant a response to the need to cut the deficit, keep inflation as far below 5 per cent

as possible and check consumer demand and provoked the disapproval of the Republican Party. Mr. Giuliano Amato, the Treasury Minister and Mr. Ciriaco's voice in the Cabinet, was clearly the most dubious about the budget's suitability even before the world's financial markets went into decline. Under pressure from the Senate, Mr. Amato persuaded Mr. Ciriaco that the changed international context required a change of strategy. It was the Mark 2 budget with a new deficit target of L109,500bn which then ran into last week's ambush by the Liberals.

However, the Liberals' politics are more comprehensible than their economics. Mr. Renato Altissimo, the party's leader, says that they left the Government because the new budget reneged on a promise to revise tax bands to allow for fiscal drag, because it did not seriously attack wasteful spending and because its overall economic impact was recessionary. The first two complaints are well-based, the third is flatly contradicted by the Bank of Italy which seems far happier with the Mark 2 budget than it was with Mark 1.

The Government was probably right to brave unpopularity on the tax concessions and the consequent union threat of a general strike on November 25. Since it was also abandoning its plans to raise VAT rates, the Liberals' demand for a credible attack on wasteful spending was right but disingenuous.

Damaging opportunism

It would have been better if the Liberals had not walked out last Friday, but now that they have one must hope that their action will focus minds in Rome on the need for a more determined attack on government spending. An emergency meeting of coalition leaders last Friday provided a first, if tentative response, in the shape of a special committee for proposing spending cuts. The meeting also promised a sounder backing for the Ciriaco Government and offered welcome indications that neither Mr. Ciriaco nor Mr. Ciriaco was looking for a fight at the moment.

If Mr. Ciriaco comes back as prime minister, and if this political rapprochement can be achieved, the Ciriaco Government will have a chance to put its house in order. It will not have been quite such a damaging opportunism as it seems today.

Time to review dock scheme

IT WOULD be heartening to think that Britain's Labour Party's opposition to expanding the port of Felixstowe was motivated entirely by concern for local bird life. If the issue was indeed the preservation of the mudflat habitat of the Brent geese and ringed plovers, many would have rallied to the cause last week as 20 Labour MPs attempted to filibuster the Felixstowe Dock and Railway Bill.

But the tactics which forced a 30-hour Commons debate on the four-year-old legislation, the longest-running bill for two decades, in truth had more to do with the National Dock Labour Scheme. Because Felixstowe has always been outside the scheme and because its growth as a port threatens its competitors within the scheme, the laws limiting the dockers' Transport and General Workers' Union to oppose any further expansion.

In the event, the filibuster proved unsuccessful. Felixstowe should in due course receive clearance to build two extra container terminals. But the episode has once again focused attention on the dock labour scheme and on pressure for its abolition. The pressure coincidentally renewed last week on the Conservative back benches.

That the scheme is still in force after eight years of Thatcherite government is something of a surprise. In general, the Conservatives have made deregulation of the labour market a priority: the powers of the wages councils have been diluted, the rights of a worker to challenge his or her dismissal have been restricted, the laws limiting the industry but on the face of it a greater affront to free-labour-market thinking than any other single regulation, persists unchanged.

Economic balance

For the past 40 years, the statutory scheme has prevented anybody other than a registered dockworker performing "dock work" at ports included in the scheme; has guaranteed a minimum wage even when no work was available; has given the dockers' trade unions joint control over labour issues such as discipline, dismissal and the size of the workforce in each port; and, since the

Aldington-Jones agreement of 1972, has in effect guaranteed dockers a job for life. More important than any philosophical objection to the scheme, however, is the effect it has had upon the UK's regional economic balance. With the scheme port being typically the old ports, dominant in the bulk cargo trades, it can hardly be a coincidence that the modern container and roll-on-roll-off traffic has been drawn to the non-scheme ports such as Felixstowe, Dover, Ramsgate and Newhaven.

Blind-eye policy

Indeed, it could be argued that the decline of the old scheme ports such as Liverpool, Bristol and London has been so complete that it is no longer worth the cost of scrapping the scheme. In addition, it is seen almost as axiomatic that a move against the scheme would cause a national dock strike, as happened in 1984. Government figures suggest scheme ports alone still handle 70 per cent of Britain's trade by volume and 45 per cent by value.

The Government, fearful perhaps of invoking the spirits of the Pentonville Five, the dockers' whose imprisonment brought down the Conservatives' National Industrial Relations Court in 1972, seems to be prepared to let the scheme wither away.

But while this blind-eye policy is unlikely to matter much where old docklands are being uprooted and reorientated towards dry-land business, there are other communities still dependent on the sea and on their scheme docks. They say prospective employers are being driven away to non-scheme ports by fear, exaggerated or not, of having to employ registered labour. The Government has a responsibility to listen to these complaints and, if they are justified, to consider some reform of the scheme, if not outright abolition.

It has, for example, been the long-standing contention of the port employers that the scheme has never worked as intended, that it was neither designed nor worked to compel the employer to employ dockers for non-existent work. A reappraisal of this most controversial aspect of the scheme would surely be seen as reasonable even by Labour's keenest ornithologists.

IS IT possible for an open and highly integrated international economy to show any degree of stability? After recent experience doubt on this point is certainly understandable, but the doubt can be allayed - though not removed.

The conjunction of a global stock market crash with concern about the value of the world's latest, but not the first, symptom of a deep malaise. These disturbances come only five years after a breakdown in private net capital flow to developing countries. The "debt crisis" grumbles on unresolved, while behind the financial disturbances that again capture the headlines is the steady growth in protection.

There are two notable features of the international economy during the past 15 unhappy years: first, monetary instability, both within the major economies and between them; (in the form of fluctuations in nominal and real exchange rates); and secondly, substantial swings in the economic and financial conditions of international capital flows.

Some, mindful of the inter-war debacle, have concluded that the international economy is inherently unstable. True, but this is not because of the inherent nature of the world economy, not least because liberalisation of trade and capital flows seems to be an essential part of the political and economic dynamic of market economies.

It is highly unlikely that firms and individuals will find that the most attractive transactions are only with their fellow citizens. Consequently, the more open economies generally outperform the others. In normal periods, therefore, there is pressure for progressive worldwide trade liberalisation.

The same logic applies to the services associated with international finance. Governments wishing to promote those services will be tempted to liberalise capital flows. Moreover, the growth of international trade and the development of multinational firms make it difficult to operate controls on capital flows.

With capital flows open to global production, considerable freedom for capital flows is probably unavoidable, whether desirable or not.

The question is whether such an economy can be managed successfully. Economists like to give theoretical answers to such questions, but one can produce a theoretical justification for virtually anything.

Before 1914 the world economy was in many respects as integrated as it is today and in certain important respects more so. Indeed, it is possible to view the history of the international economy of the last 70 years as consisting of two attempts to restore the main features of the liberal international economy of the 1870 to 1914 period.

The first attempt foundered during the Great Depression. The second attempt at reconstruction began in the period immediately after the Second World War and has since been a continuing difficulty.

The ratio of trade in manufactures to world output passed the 1913 level only in the late 1970s. This is consistent with the evidence of the seven principal developed market economies. Ratios of trade (exports plus imports) to GDP in the mid-1980s were a little above pre-war levels in France, Germany and the United Kingdom. They were actually a little below those levels for Japan and had risen significantly above the pre-1914 levels only in the case of the United States, Italy and Canada.

HAWAII, NOVEMBER 15

Perfect setting for a detente

Transport 80 American high tech executives to a sunbathed South Pacific island to meet with a similar number of Japanese counterparts, and the bitter trade friction that has separated them for so long will melt away in the sunshine.

That at least was the theory behind an unusual "trade partners" conference staged on the Hawaiian island of Maui last week by the Semiconductor Equipment and Materials Institute, a US-based international trade group representing makers of the production equipment and materials used to make semiconductor chips.

There could hardly be a more perfect setting for this trans-Pacific detente. A paradise resort that attracts thousands of visitors from both the US and Japan. Maui also has a unique blend of oriental and American cultures. The people are a mix of native Hawaiian with Caucasians, Japanese, Chinese, Koreans and Filipinos who live together in a spirit of "Aloha", a Hawaiian greeting meaning beauty, harmony, hello, good day, love, compassion and kindness.

The pace of life is slow...slow. What reason can there be to hurry? The roads are narrow, bumpy and winding. The "sugar cane train" moves at its own sweet pace. The girls who bring "Mai Tai" cocktails to pool-side sunbathers saunter, and the bus driver stops three times, on a two mile run, to exchange greetings with friends. Out off by thousands of miles and several time zones from high-tech, high-paced reality, the electronics executives don flowery shirts and begin to talk about the common interests: the physics of making ever smaller semiconductor chips.

Swept out to sea

Differences between the US and Japan - allegations of semiconductor dumping, complaints about Japanese reluctance to buy

Policy makers pursuing global economic stability can learn from the past, argues Martin Wolf

The need to look to the long term

(Reliable comparisons for Germany are impossible, for obvious reasons.)

Turn to international capital flows. The export and import of capital of the three largest market economies were but a modest proportion of their national products in 1985. The obvious historical comparison for Japan today is the UK, the world's main source of private capital before 1914. In the decade before the First World War, the peak period for UK capital exports, the UK exported twice as high a proportion of GDP and four times as great a proportion of total savings as Japan does today. It is estimated that a third of the debt to trade of nine, in 1984, wealth was in the form of net assets abroad by 1913. A comparable proportion of UK private wealth at the end of 1986 would have been £450bn.

What does this look from the debtors' point of view? Surprisingly, ratios of the stock of external debt to trade for the principal debtors in 1913 were much lower than today. In 1913 Canada appears to have been the world's most indebted economy with a ratio of debt to trade of 1.5. Argentina, with a ratio well below four.

In short, the world economy was almost as open to trade as it is today. In a generally liberal climate, exports of the more advanced countries grew from 1870 at about 4 per cent a year on average. Meanwhile, in the presence of price and exchange rate stability, the principal capital flows were long term and at strikingly low nominal rates of interest. Thus, between 1880 and 1904 the average interest rate in London on foreign bonds was stable and a little above 5 per cent, about 1½ per cent higher than on equivalent domestic loans.

The most remarkable feature of these capital markets was their "long-termism". What better indication can there be than that the average interest rate in London on foreign bonds was stable and a little above 5 per cent, about 1½ per cent higher than on equivalent domestic loans.

The main important advantage of the long maturities and low

nominal coupons was the modest refinancing requirements. Indeed, with much lending for defined investment projects, debts were in principle self-liquidating. Equally important, the holders of the loans were individuals, not highly-g geared financial institutions.

By contrast, the debt accumulated by developing countries in the years before 1982 came largely from commercial banks, had maturities of about five years and was at variable rates of interest. When nominal interest rates and inflation were high, as much as a quarter of the debt had to be borrowed anew every year merely to keep liabilities constant in real terms. Thus, by their determination to remain as liquid as possible - itself a natural consequence of uncertainty about the future - the lenders guaranteed that a financial crisis would follow any desire to reallocate portfolios. Worse, that crisis directly threatened the health of the most important financial institutions of the market economy, the commercial banks.

What persuaded nineteenth century lenders to operate in ways that would seem suicidal today? They had confidence in the preservation of the value of the money, in the ability of exporting countries to earn foreign

exchange unhindered by protection in the world's most important market and in the relatively low likelihood of expropriation.

The most important element of the policy environment made it increasingly unlikely that they would prove stabilising. Floating exchange rates were then blamed for the chaos that their gyrations so faithfully reflected. Yet something of value appeared to have been learned after 1971. If governments orient their macroeconomic policies to levels of real activity in the short run, they are likely to get both higher inflation and higher unemployment in the medium run.

Between 1979 and 1982 policy-makers introduced a frighteningly high price in lost output, higher unemployment, and disruption in the developing countries in their efforts to restore the preconditions of economic stability.

Now, however, the danger of throwing it all away. Particu-

larly disturbing have been comments from senior American policy-makers suggesting that the horizon for macroeconomic policy is again twelve months and the sole objective winning the next elections.

Whether for good or ill, unquestioned commitment to the gold standard and balanced budgets cannot be restored. Nevertheless, there are lessons from the past for contemporary efforts to secure greater international economic order.

One lesson is that the natural course of long term capital flow from advanced countries with surplus savings to developing countries, not to other developed countries.

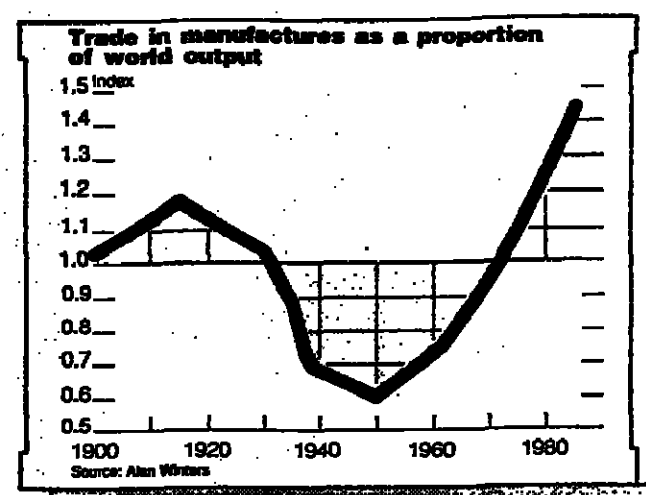
There is a link, therefore, between the "dollar crisis" of today and the "debt crisis" of five years ago. If it had not been for the breakdown of lending to developing countries after 1982, the present unsustainable imbalances among the developed countries would probably not have occurred. It is desirable in a world where so many countries are chronically short of capital as well as in the interest of the surplus countries themselves to promote the flow of long term

private investment from their own citizens to the developing world.

More broadly, periods of international economic success have also been periods of monetary stability. The restoration of exchange rate stability is a worthy goal, therefore, but one that can only be achieved if it is underpinned by domestic monetary and fiscal policy in major countries. In such a world the policies of major countries would be predictable, not least because they would self-evidently be sustainable.

When trying to cultivate the desired longer term view, one can only regret the grave contemporary handicap of monthly economic statistics and the need to react to them. The more serious, however, is the time-table imposed by democratic electoral competition, the remedy being a wiser electorate. But it may prove impossible, in practice, to restore predictability to policy and credibility to policy-makers. In that case, the markets are doomed to go on disappointing governments just as governments are doomed to disappoint the markets.

A hundred years ago, Argentina could borrow in London at terms unavailable to West Germany today



Ratio of Foreign Debt to Trade			
	1913		1984
Canada	6.6	Argentina	3.6
South Africa	6.3	Chile	2.9
Latin America	5.2	Mexico	2.6
Australasia	4.8	Brazil	2.4
Russia	2.4	Philippines	2.1
India	2.3	Ivory Coast	1.8
Japan	2.3	Korea	0.7

Source: W. Arthur Lewis & World Development Report 1986

Net capital outflows (Per cent)			
as a proportion of GDP	Gross National Savings	Gross Domestic Fixed Investment	Current Account
US 1985	16.5	18.6	-2.9
Japan 1985	31.4	27.5	3.7
W. Germany 1985	22.2	19.5	2.2
UK 1905-14	16.0	7.0	6.0

Source: OECD Economic Outlook Dec 1986 & The Economic History of Britain Since 1700

Proportions of Merchandise Trade to National Product for Major Developed Countries (Per cent)			
Ranked by economic size in 1984	Pre-World War I	1950s	1984
US	11.0	7.9	15.2
Japan	29.5	18.8	24.2
Germany	38.3	35.1	52.8
France	35.2	n/a	40.2
UK	43.5	30.4	47.0
Italy	28.1	25.0	44.6
Canada	32.2	31.2	47.3

Source: Simon Kuznets & World Development Report 1986

exchange unhindered by protection in the world's most important market and in the relatively low likelihood of expropriation.

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Men and Matters

American electronics goods, fears of Japanese appropriation of US developed technology, accusations of illegal Japanese exports to the Soviet Union - seem to be swept out to sea, like so much debris on a beach, by a wave of politeness and growing camaraderie.

Despite the conducive atmosphere and the well-meant efforts of the US and Japanese businessmen, the realities of trade discord impinge upon this idyllic scene when a senior US government official takes his turn at the podium. Paul Freeseberg, Assistant Secretary of Commerce, has the unpopular task of pouring a heavy dose of cold water upon the growing optimism of this international group.

The bad news

He describes, in blunt terms, the views of the US Administration on high technology trade, delivering the bad news that US makers of "strategically significant" products as semiconductor production equipment will likely be prevented from exporting their goods to China for several more months. Last, until the Chinese stop supplying Silk Worm missiles to Iran.

The US Administration's opposition to the "Toshiba Amendment", an add-on to the Trade Bill, is loudly and openly discussed in Congress, which would ban US imports of Toshiba products in retaliation for the Japanese company's illegal export of machine tools to the Soviet Union. It is little comfort to a group that would prefer to bury such differences in the past.

Discussions of the US-Japanese trade war over semiconductor chips are clearly discomfiting to a group that aims to increase its business ties. While the US semiconductor makers lobby in Washington, we prefer to play golf with the Japanese, explains a SEMI official. There are plenty

of opportunities to either play or watch wherever the PGA Tour. Izuru Kapalus International Championship match is just getting under way. Both US and Japanese executives suggest that the industry can work out its own problems if only the politicians would leave them to it. Facing up to the fact that the time for such simple solutions has long since passed, the industry can work out its own problems if only the politicians would leave them to it.

Space ambitions

This little island of tourist hotels, sugar cane and pineapple plantations knows little of the high-tech world, but several of its leading citizens would like to change that situation in a hurry. They are proposing to build a commercial space launching station on a remote corner of the island to be named after one of the astronauts who perished on the Challenger shuttle.

Ironically, it is the Challenger disaster that has created the need for a commercial launch site to lift private payloads that NASA can no longer handle. There is also a half-built "technology park" to which Maui's economic development board is trying to lure high tech companies. But without the advantage of an engineering college or an established base of manufacturing companies, the island has so far had little luck in attracting the kind of companies that might provide well-paid jobs for its young people.

While the "tourism" remains the mainstay of the Maui economy and there is a constant battle between those who would expand the tourist trade by building new high rise

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Observer

Roderick Oram on
Wall StreetLessons
in T-bond
futures

ANGELOS Michalopoulos, 27, has a view to match his profits. Glancing up from the bank of eight computer screens in his 46th floor apartment, he can see clear across Central Park to New York's distant eastern suburbs.

Self-employed and working from home, he makes a lot of money in extremely short-term trades in Treasury bond futures. Six hours a day he scans his screens for a handful of chances each session to dart into the Chicago futures pits. He is decidedly committed to the market, holding most positions for only a few minutes and never more than a couple of hours.

Squeezing all emotion out of his analysis and isolating himself from the news - he does not even read current magazines - he trades strictly by the charts.

Asiduous study of T-bond futures trading, 10 years old last August, convinced him the market is driven by investor psychology in intricate but predictable patterns.

"Turning theory into practice almost wiped out his \$50,000 capital when he started five years ago. Frightened but tenacious, he sweated it out.

Failure would have also reversed his view. Like countless immigrants before him, he reckons he would have seen the smart parts of town from afar. "I would have had to wait tables at a Greek restaurant out in Astoria," he suggests.

Judging, however, by his intense drive, it seems more likely he would have found some other equally profitable niche. Last year's earnings just topped seven figures and this year's are even better, giving him the lead in a national trading competition.

He arrived in the US nine years ago, aged 18, to attend Cornell University. As a student he read every book he could on how to make money in the markets but decided 90 per cent of the authors wrote because they were trading failures.

He began his own research by photocopying a 10-year run of daily market reports from the Wall Street Journal and studying these led him to conclude T-bond futures were the most likely candidate for chartist trading. He got hold of graphs of the market showing its price rise by day-by-day from day one in 1977.

After he graduated, his studies went into high gear as he "paper traded" for a year. Five hours a day he would edge a blank piece of paper across an old chart trying to predict the next few price ticks of the futures contract. To begin with he was terrible, losing on paper up to 28 times his capital.

Then, as now, "it's my fault when I'm wrong, it is my research and my mind which is not good enough. The market is always right."

He upped the paper trading to 15 hours a day for the last three or four months of his training year. But even so his real trading debut was a debacle. "I got three months behind on my rent."

"I'm extremely pleased to have gone through that period. I had to make some of my most important and difficult trades. Now I am more confident and leveraged. He reckons he now loses on only 10 per cent of his trades and the damage is minimised by stop-loss instructions he gives with each order. He phones the orders to brokers in Chicago who places them with seven independent traders around the pit to ensure the best execution.

Trading on margin gives Mr Michalopoulos huge leverage. He commits only \$3,500 cash to buy each futures contract worth \$100,000 of Treasury bonds. Each minimum price movement, a tick of 1/4 of a point (or five ticks, the stop-loss automatically triggers the contract's sale at a loss of some 3 or 4 per cent in his investment. He rarely lets winners run up more than 10 or 12 ticks, about 1/2 of a point which can happen in a matter of moments in a volatile market.

Thanks again to the margin, that maximum gain represents a 9 per cent return on his investment. At any one time, he might be holding as many as 150 contracts, representing \$15m of bonds, on a margin investment of \$525,000. At times he has held 400 contracts.

Rigorous discipline rules his actions. He stopped trading on October 14, five days before financial markets suffered Black Monday's heart attack, because the futures market "wasn't conforming to any historical chart. You could see the price move up in 10 minutes as much as would usually take five or 10 days." He resumed trading on October 21.

It was tempting to trade in so wild a market. "It could be extremely profitable or it could be a disaster. Being a trader, it was humiliating to be out of the market but I became extremely philosophical.

"The easier part, 20 per cent, is to know where the market is going. The harder part, 80 per cent, is fighting your emotions."

CATHOLIC PRIESTS ACROSS IRELAND CONDEMN POLITICAL VIOLENCE FROM PULPITS

Dublin moves on Extradition Act

BY HAZEL DUFFY IN LONDON AND OUR CORRESPONDENTS IN BELFAST AND DUBLIN

ONE of the severest tests of the Anglo-Irish Agreement looks likely to be resolved.

Over the weekend, which marked the second anniversary of the signing of the Agreement by the British and Irish governments, it became clear that Mr Charles Haughey, the Irish Prime Minister, was now prepared to implement the Extradition Act, providing for the extradition of terrorist suspects, despite the publicly expressed misgivings of a number of government backbenchers.

Mr Haughey's move, which will be detailed at a meeting today of the Anglo-Irish Intergovernmental Conference, came in the wake of the condemnation by politicians and the Catholic Church of the IRA bomb outrage in Enniskillen a week ago when 11 people died.

Ireland's Catholic priests yesterday read at every mass in every parish the most strongly worded condemnation of political violence since the Pope's celebrated appeal to the men of violence during his Irish visit seven years ago.

At six o'clock yesterday evening, a minute's silence was observed throughout Ireland as an act of remembrance for victims of the Enniskillen bombing. The unprecedented gesture expressed a clear national mood of atonement for the outrage.

Ecumenical services of remembrance for the dead took place at both sides of the border. Church leaders want to build on the widespread outrage and



James Moynihan

shame felt after Enniskillen in the belief that the incident can mark the turning point many hoped for in its immediate aftermath.

The Irish Government's move, however, is unlikely to impress Unionists in Northern Ireland, who remain implacably opposed to the Agreement. Mr James Moynihan, leader of the Official Unionists, said at the weekend: "Surely, in the aftermath of Enniskillen, no government needs to be reminded of its plain duty to go all-out in bringing the murderers to justice."

Implementation of the Extradition Act will add nothing to the legal armoury of those seeking extradition warrants from the

Republic. But it was seen by Mrs Thatcher as a symbol of Mr Haughey's sincerity on security co-operation.

The new arrangements are likely to involve Sir Patrick Mayhew, the Attorney-General, providing guarantees about the strength of evidence against those whose extradition is sought.

Today's meeting of the Conference, to be chaired jointly by Mr Tom King, Northern Ireland Secretary, and Mr Brian Lenihan, Irish Foreign Affairs Minister, is also likely to discuss the mechanisms for setting up a study on the Diplock courts in Northern Ireland, reform of the one-judge courts, and how to improve the Irish Government with implementation of legislation on extradition. Setting up the study, to be carried out by lawyers and academics, does not imply a substantial review of the courts.

However, the Unionists are sure to see it as another element in what they believe to be the implicit threat of the Hillsborough Agreement to their future within the UK. Tens of thousands attended three protest rallies throughout Northern Ireland on Saturday.

But this show of support was in marked contrast to the massive anti-Agreement rally in Belfast on the first anniversary. The campaign against the Agreement has seen a significant switch in direction in recent months, and displays signs that Unionist leaders are losing ground in the offensive.

One of the key weapons of opposition, that of Unionist-controlled local authorities adjourning council business in protest at the Agreement, was frustrated by court rulings that they were acting beyond their power. Although they continue to disrupt the smooth running of councils by refusing to co-operate with government departments and ministers, the weapon has been severely blunted.

Frustration at the failure of Unionist leaders to break the stalemate in the campaign to stifle the Agreement is evident on several fronts, particularly the resignation of Mr Peter Robinson as deputy leader of the Democratic Unionist Party.

Increasingly, the enthusiasm of young Unionists to take part in politics is being dented by the prospect that in the current election campaign, when local councils have few powers and Scotland does not sit, they have nowhere to go. In some areas, the parties are finding it difficult to get people even to stand for local elections.

But grass-roots fears that Northern Ireland will ultimately come under Dublin rule, is very real and calculated to ensure that fierce opposition to the Agreement is maintained, even if some belated agreement is reached by the Rev Ian Paisley and James Moynihan of "spoiling" the Agreement and expecting it eventually to break down is not enough. The difficulty is seeing the new leaders to take them out of the stalemate will emerge.

Airbus sets date to become profitable

BY MICHAEL DUNNE, AEROSPACE CORRESPONDENT, IN LONDON

AIRBUS INDUSTRIE, the European airliner manufacturing group, is aiming to become "profitable and self-sustaining by the mid-1990s."

This is stated in a document being circulated by Airbus, designed to defend itself against recently renewed allegations that the US of unfair pricing practices in world airliner markets.

Talks between European and US officials are under way aimed at putting matters into proper perspective, it hopes to "contribute to a better understanding that Airbus Industrie, like any other company, is driven and controlled by commercial decisions. We recognise that our products must win their place in the market as a result of their competitive qualities."

Airbus argues that its success in world markets has been derived not from unfair trading practices, subsidies or government direction, "but rather through a better definition of the needs of operators and through the cost-effective application of technology."

Moreover, it says that competition from Airbus's advanced products has itself regenerated technological development by its competitors, which had been lulled by the success of its own models of earlier aircraft.

Airbus argues that far from creating trade distortion through government cash support for its ventures, it will reduce the cost of aircraft to the airlines, and thus counteract distortion in trade resulting from domination of the industry by US manufacturers.

"The magnitude of such domination is indisputable. Of the 6,075 aircraft in service worldwide at the end of the 1986, 5,107, or 84 per cent were produced by Boeing and McDonnell Douglas. Airbus Industrie and its partners manufactured only 609 aircraft."

"Boeing has a monopoly with the high-capacity, long-range 747. Without Airbus Industrie, Airbus argues that its success in world markets has been derived not from unfair trading practices, subsidies or government direction, "but rather through a better definition of the needs of operators and through the cost-effective application of technology."

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this could easily lead to exploitation of the market.

The trend towards monopolisation is clear: 35 years ago, 20 or more manufacturers competed for the business. Today, only three significant participants remain. Airbus Industrie is one of the very few remaining factors in the market, and its dominance is a distortion of trade in commercial aircraft.

Airbus says that the long-term potential of the market for airlines is enormous. It is estimated that over the next 20 years, it is so great as to offer room for profitable participation by three major manufacturers.

Airbus believes the airlines and passengers of the world deserve a choice of aircraft and that the distortion of trade stemming from the dominance of the industry by US manufacturers needs to be reversed.

The European group also stresses that it is seeking no more than a 30 per cent share of the potential market, which it believes it can win "only through competitive product qualities and through ceaseless efforts on the part of its industrial partners to bring down manufacturing

costs," as well as the application of advanced technology.

This is especially the case with the new Airbus A-320 150-seater, for which more than 400 firm orders and options have been won. Airbus says the A-320 is a design for the needs of the 1990s, whereas its US competitors are still designing the 1980s.

The significant improvements in direct operating costs of the A-320 over competing models are the fruit of such technology.

Airbus also stresses that "a common misconception" is that it is the result of some multi-national government merger. "That is not so. There are no direct links between Airbus Industrie and the governments of the countries of its shareholders."

Our partners are commercial entities in their own right that compete among themselves on product lines other than Airbus aircraft. Their financial welfare and reputation are on the line, and it is obvious that they would not be in this co-operative venture if they did not expect ultimately to see a financial reward from it."

The figures show that total support costs have more than doubled in the past six years, with those for cereals and for oil seeds rising by 47 per cent and 83 per cent respectively in the past year alone.

The influential newsletter, AgreEurope, quoting the annual report of the European Agricultural and Guidance Fund for 1986 says that the total cost of the farm support policies was Ecu22bn in 1986, compared to Ecu10.5bn in 1981. The dairy sector, at Ecu5.4bn, still accounted for nearly one quarter of total spending in 1986, but cereals had risen to Ecu2.4bn and oil seeds to just over Ecu2bn.

THE LEX COLUMN

A weather eye
on Tokyo

The world's investment community has its attention fixed on the struggle over budget deficits in Washington. It should spare the odd glance over its shoulder at Japan. It takes an effort to recall that before the crash on Wall Street it was axiomatic - outside Japan, anyway - that the Tokyo market was grossly overvalued and doomed to collapse.

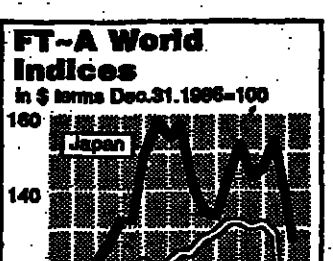
Now that Tokyo has instead proved particularly resilient, an unnerving question arises: will the world's biggest equity market go on being a pillar of strength, or will it be artificially delayed? And if so, will the crash be all the more when it comes, sweeping other markets into another round of collapse?

In Japan itself, the question raises a good deal of irritation. Outsiders, it is said, fail to understand the Japanese system. The market cannot collapse, because the Ministry of Finance will not let it. Nor will Japanese companies and institutions, who are so interlinked that they cannot afford a collapse and would use their immense liquidity to stop it. Anyway, Japanese equities were never as dear as they looked, because earnings are understated in Japan and all these cross-holdings create an effect of double counting.

This is all nonsense, except the last bit which is irrelevant. The social solidarity of the Japanese system is undeniable, and has done much to support the market through last week's giant NTT issue. But if it were infallible the market would never fall at all, and the awful bear markets of 1935 and 1937, for example, would never have happened.

As for equity valuations, even if they were dead right in the summer, the worsening fundamental outlook means they should be a good deal lower now. The speed of the dollar's fall has gloomy implications for exports, even if one dismisses the scenario of a Democrat in the White House next year and a surge in protectionism. Forecasts for world trade are being cut back in any case, and a serious fall in Japanese equities, let alone real estate, would hit consumer confidence inside Japan as well.

On a more cheerful note, the Japanese economy is becoming steadily more domestic in its orientation, and there are major government spending plans afoot. Some \$20bn of the cash from NTT, for instance, will be spent on public projects next year. There is also a formidable



amount of liquidity in the financial system. On the other hand, bank lending for the purpose of buying shares and property was rising steeply until just lately, when it went into decline. It is plain enough what would happen, in a market crash, to a Japanese bank which had used the value of its long-term equity holdings to calculate its capital and had lent accordingly to buyers of equities.

Since foreign holders of Japanese equities have mostly sold out by now, it could be argued that a market collapse would be a purely domestic matter. But in a crisis of confidence it would be surprising if Japanese investors did not do as others have done in recent weeks, and call their capital home. Even without that, it is scarcely conceivable that Wall Street and London could shrug off a Tokyo crash. It is still perfectly possible that the immense strength of the Japanese economy will pull it through the crisis. Tokyo needs watching all the same.

Despite the chairman's confident statement, written after the collapse in world share prices, the latest balance sheet is not a particularly useful guide in assessing Japan's financial position. At a guess, Bell Group could now have a negative net worth of between \$50m and \$100m, given that the value of the investment portfolio has shrunk by well over \$100m. Last week's sales of various Perth properties will have bolstered the group's net worth and helped solve the short-term debt servicing costs, but are almost certainly not enough to repair the damage.

Bell Resources, by contrast, is in somewhat better shape and analysts estimate that it has a positive net worth of \$250m per share, which is around \$1 more than its current share price. However, its share portfolio is also carrying heavy financing costs and Australian brokers McCaughey-Dyson, for example, estimate that it will suffer a \$80m cash shortfall in 1988 if no action is taken.

Bell Resources would seem to hold the key to the future of Holmes & Court's financial empire. But whereas a month ago there was widespread speculation that Bell could solve its cash flow problems by building for BHP, it could now be open to BHP to rid itself of an unwanted shareholder by doing the same in reverse.

Platinum price predicted
to stay near record level

BY KENNETH GOODING IN LONDON

DEMAND for platinum will exceed supplies of newly mined metal for the third successive year in 1987, says Johnson Matthey, which claims to be the world's largest platinum refining and marketing organisation, in a review published today.

The company forecasts the price of platinum to remain near record levels between \$530 and \$620 an ounce.

The review was written before the recent stock market and currency turmoil, since when the metal's price has fallen. It was \$497.75 an ounce in London on Friday.

But the review's author, Mr Geoffrey Robson, said at the weekend that Johnson Matthey's assessment of price prospects was unchanged.

He pointed out that Japanese imports of platinum in October were exceptionally high, and that both there and in the US there was a marked resurgence of demand from private investors.

The price fall may partly have been influenced by news of several potential new platinum mines in South Africa. However, Mr Robson said these would not affect supply would before the early 1990s.

On the basis of data available at the end of August, Johnson Matthey estimates that the West's demand for platinum

could this year exceed 3m ounces for the first time. It says demand is likely to rise by 140,000 ounces to about 3.1m ounces, 5 per cent up on 1986. This would leave short-fall in newly-mined metal of more than 60,000 ounces.

The main change in the pattern of demand in 1987 has been provided by the purchase of bars up to 10 ounces by small investors.

This has been outweighed by purchases of bigger bars by jewellery makers. It was a swing of about 225,000 ounces from net disinvestment to net new business.

Platinum consumption by the Japanese jewellery industry this year may exceed 800,000 ounces, the greatest demand from the sector since 1978.

Most of the demand for platinum comes from its use with catalysts to remove harmful vehicle exhaust emissions. This demand is set to fall for the first time since 1980.

However, the effect of falling car sales in North America this year has virtually been offset by growth in the catalysts on cars built in South Korea and Europe.

Platinum 1987 Interim Review, free from Johnson Matthey, New Garden House, 78, Hulton Garden, London EC1N 8JP.

Beech-Nut officials in
'bogus apple juice' trial

BY RODERICK ORAM IN NEW YORK

The trial starts today in New York of two former top officials of Beech-Nut Nutrition, a US subsidiary of Nestle, the Swiss-based food group, on charges of conspiring to distribute bogus apple juice.

Mr Niels Hoyvald and Mr John Lavery, who were respectively Beech-Nut's president and vice-president, are charged with conspiring to manufacture and distribute adulterated product which it claimed was 100 per cent apple juice.

The charges covered the period between December 1981 and March 1983.

A further 145 counts were dismissed under plea bargaining.

However, the company, the second largest baby food maker in the US after Gerber Products, pleaded in guilty on Friday to total charges of selling an adulterated product which it claimed was 100 per cent apple juice.

The charges covered the period between December 1981 and March 1983.

The company also agreed to pay a \$2m fine.

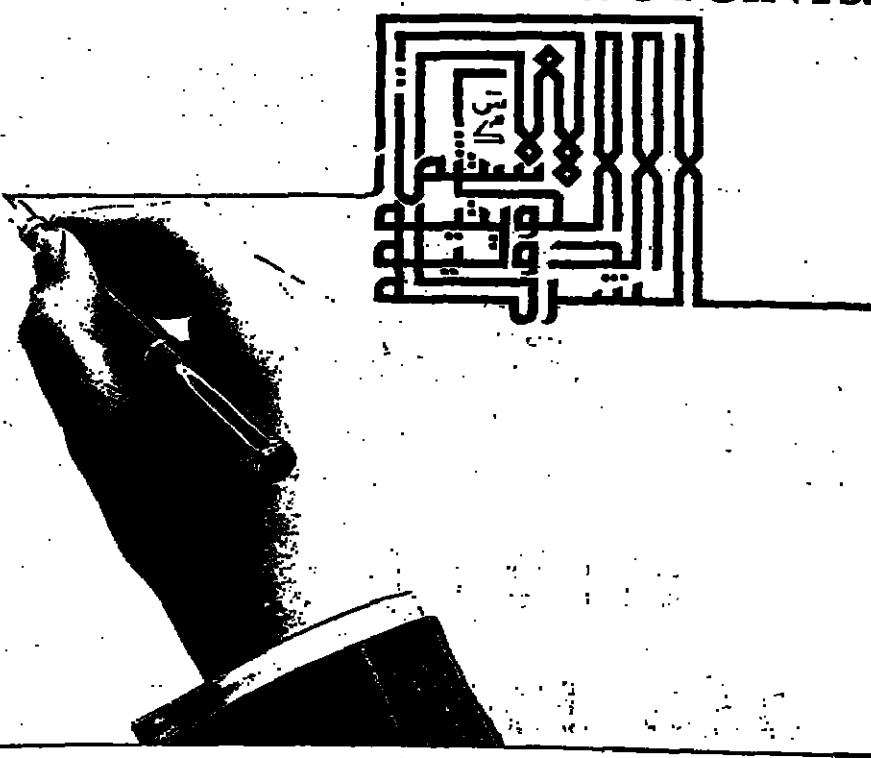
The product Beech-Nut made and marketed as pure apple juice consisted of cane sugar, syrup, beet sugar, corn syrup and other ingredients, but little apple juice.

Prosecutors said the product was 20 per cent cheaper to make than genuine apple juice.

The indictment charged that Beech-Nut and three other companies involved in the product intentionally shipped adulterated and mislabeled juice to 20 US states, Puerto Rico, the Virgin Islands and five foreign countries with the intent to defraud and mislead.

Dr Richard Theuer, Beech-Nut's current president, said it had improved quality control and instituted measures to prevent a recurrence of adulterated products.

He said the artificial apple juice contained only "safe food ingredients".

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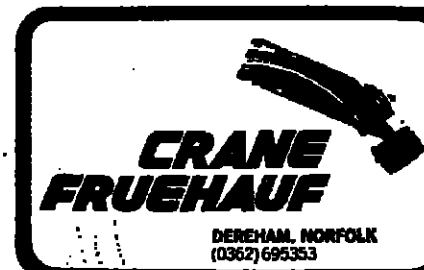
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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday November 16 1987



INTERNATIONAL BONDS

Investors go for the bluest of blue chips

THE INTERNATIONAL debt markets settled into the slow lower interest rate environment and exchange rates showed signs of stability last week. Yet one could imagine a livelier Eurobond new issues market during the Christmas holidays. Why?

The answer is, simply, that investors had not developed the confidence that the markets were now on a firmer footing after recent turmoil and were therefore prepared to buy only the bluest of blue chip paper.

Meanwhile, most of the limited number of borrowers who fit their requirements were not desperate enough to issue at the rather mediocre rates dictated by the swap market.

The real problem with investors' short list of acceptable names was that it excluded all corporates - many of whom would gladly lock in today's lower interest rates. This

left issuing houses chasing a select bunch of supranationals and sovereigns, most of whom have much reduced borrowing requirements these days.

As one syndicate manager said: "The market's already launched two issues guaranteed by Austria and one massive deal for Italy over the last three weeks. We're getting short of targets."

The bright spot of the primary market last week was the \$200m deal for Oesterreichische Kontrollbank (with the guarantee of Austria) led by Banque Paribas Capital Markets.

This represented a breakthrough in that it showed that confidence among Eurodollar bond investors was strong enough for them to absorb a bond for a slightly less familiar name than had previously been thought, with a slightly longer maturity and on slightly tighter terms to boot.

Before this issue, the only post-October 19 precedent had been a \$350m three-year deal for Austria itself priced at a massive 75 basis points over the US Treasury yield curve. However, volatile the environment, that had to look generous.

But dealers agreed that OKB's five-year bond, priced originally at 70 basis points over the curve, met very satisfactory demand. By Friday, its yield margin had narrowed to 65 basis points as it traded comfortably within fees at less 1.00 bid.

It helped embolden syndicate managers to talk of the favourable prospects for a seven-year bond for a similar name, could it but be found. They thought investors were now sufficiently confident to venture out of the short end of the yield curve to obtain a yield pick-up of about 35 basis points yield over a five-year piece of paper.

The one appropriate borrower

widely known to be looking for funds in Belgium, which is said to want to redeem an outstanding dollar floating rate note. Hence, huge numbers of mandate-seekers continued to descend on Brussels last week, keeping alive the rumour - by Friday nearly a fortnight old - that a new bond for Belgium was appearing any minute.

Some dealers said the issue should total around \$400m, with Belgium aiming for a funding cost not greater than 30 basis points under London interbank offered rate.

One thing dealers were united on was that any new issue would have to be priced at a "realistic" yield spread over the US Treasury curve.

The trend to more generous pricing had in fact been established before the recent turmoil in financial markets. For most of this year, Eurobond syndicate managers, nursing their wounds from the era

of kamikaze, swap-driven bond pricing, have been proclaiming loudly that the market should dictate the yield spread.

It would be quite misleading to imagine the primary sector has now become an "underwriter's market," however. As one syndicate manager said: "In competitive bidding now you usually find a consensus on the pricing of the bond but really vicious hand-to-hand fighting on the swap."

At the end of the day, it is always the swap rate that drives the pricing of the bond.

Prices in the Eurodollar secondary market ended the week around 1/2 point higher but in light volume. This was amid widespread fears that the dollar would not maintain the exchange rate levels it reached after President Reagan's supportive comment last Tuesday, and helped by the US trade figures, unless there were some really good

news on the US budget deficit front.

This view was apparently shared by the D-Mark, which staged a rally towards the end of the week as funds driven by currency speculation moved back in. Earlier, the market had been weakening, so that prices of longer-dated Euro D-Mark bonds ended about 1/2 point weaker, while shorter-dated issues posted losses of about 1/4 point.

One state-backed borrower, Banque Française du Commerce Extérieur, ventured a new issue in the D-Mark sector during the week. BFC's seven-year DM200m 8 per cent bond met a firm initial response on Tuesday, but enthusiasm ebbed thereafter. It closed on Friday at less 1 1/2 bid, having traded as high as less 1.15.

Bank of America International said on Friday it was withdrawing from market making in floating rate notes, with the loss of five jobs.

Clare Pearson

AIBD

Attempts to tighten up regulations on 'buy-in' notices

THE TRANSFORMATION of the Association of International Bond Dealers (AIBD) from a trade association into a self-regulatory body continues apace. Last week, it responded to mounting concerns about Eurobond price manipulation with proposals for tougher sanctions and new rules to curtail price squeezing.

Mr John Langton, managing director of broker Gihel and deputy chairman of the AIBD market practices committee, said: "The current AIBD rules were invented in the days of 'my word, my bond'. Now it's more like 'my bond, your loss', and the rules must reflect this."

In particular, the AIBD is hoping to tighten procedures for "buy-in" notices. This method of dealing with non-delivery of bonds has attracted considerable attention recently, following a well-publicised squeeze carried out by Dean Witter Reynolds in September on a bond for Canada's Farm Credit.

The "buy-in" works like this. A house which has purchased bonds from another firm may serve a "buy-in" notice if the bonds are not delivered on time. The purchasing house will then appoint an agent to buy bonds in the market on behalf of the firm which originally sold the bonds short. This house has to bear any difference between the market price and that at which the trade was originally agreed.

Problems arise where the purchaser, or another house, has already cornered the market in an issue, forcing the house that did not honour the original trade to pay at an inflated price.

In a letter to AIBD members circulated on Friday, Mr John Wolters, the secretary general, said the AIBD was considering a number of new rules to make it harder for the buy-in to be transacted at an artificial price.

One suggestion is that market makers would have to be informed before a buy-in that it was about to take place. Another is placing restrictions on the number of firms which may be appointed as buy-in agents, such as limiting them to existing market makers in the bond.

The association's market practices committee is hoping to put its proposals to the board next month, so that new rules can come into effect early in 1988.

The AIBD is also hoping to develop a general "good market behaviour" rule which will enable it to practise more effective discipline over its members.

In his letter, Mr Wolters points out that the lack of this rule currently makes permissible in the Eurobond market "certain market practices which have long been illegal in some jurisdictions and are likely to be covered by the new UK Financial Services Act." He did not specify which practices these were.

Mr Richard Bristow of Credit Suisse First Boston, chairman of the market practices committee, said on Friday such a rule would mark a new departure for the AIBD because it would enable it to make a judgment against its members.

The AIBD already has powers of expulsion but these have almost never been put into effect because of the lack of a general standards of behaviour rule.

The Zurich-based AIBD is hoping to become a recognised investment exchange under London's regulatory structure, laid down in the Financial Services Act. But Mr Bristow said the move to tighten AIBD rules was not motivated by a desire to meet the requirements of the UK regulators.

C. P.

EUROCREDITS

Greek rehabilitation continues as economic health improves

GREECE'S rehabilitation in the international capital markets is continuing. A \$175m loan mandated last week for the country's telecommunications authority, OTE, returns the country almost to the terms it could win in 1985, before it temporarily stopped borrowing amid mounting economic problems.

Bankers Trust International and Mitsubishi Bank won the mandate for the eight-year loan, which will have a 1/2 percentage point margin over London interbank offered rates for the first four years and 1/4 thereafter, thus reintroducing the half-point spread for the first time on a major loan.

Despite stiff competition to win the mandate, the terms are not viewed as super-aggressive, given the improvement in the Greek economy, and most bankers expect the loan to provide few problems to syndicators. Lead managers con-

sisting \$12.5m will receive a 1/2 percentage point front-end fee.

The twist is in the currency option which banks, and especially Bankers Trust, are increasingly attaching to such transactions. Banks will have a two-year right to convert the loan into D-marks, and the sale of this option reduces the borrower's cost to substantially below Libor, even though it does not affect the margins earned by lending banks.

A string of large corporate deals is emerging. National Westminster Bank and Morgan Guaranty have been jointly mandated for a \$600m four-year credit by Unisys, the US computer company formed by the merger of Burroughs and Sperry. Syndication has closed, but the terms were not disclosed.

Nor did NatWest reveal the terms of a \$400m multiple option facility syndicated. Lead managers con-

tin, the UK hotel and leisure group, save that it has a five-year maturity with an average option.

Consolidated Bathurst, the Canadian pulp and paper concern, has appointed Credit Suisse First Boston to arrange a \$100m seven-year facility under which it may issue floating rate notes during the first

two years, all maturing at the same time as the facility. This structure is designed to avoid Canadian withholding tax on securities of less than five years. The underwriting fee is 10 basis points and the maximum margin 15 basis points.

Istituto Italiano di Credito Fondiario has mandated Credit Commercial de France for a 1.250m and 10-year credit with a 6.5-year average life, a 12 basis point margin, a 5 basis point commitment fee, and a management fee of 7 basis points.

Hambros Bank has devised a new structure for the Britannia Building Society, under which banks successful in raising funds for the borrower can reduce their underwriting commitment.

The \$100m facility for multicurrency advances and certificates of deposit of up to five years maturity is backed up by a \$50m committed

facility. So far, so normal. But if a bank is both an underwriter and a lender panel member, and advances funds or places paper within a margin set by the borrower, it may subtract the amount from its underwriting commitment. This amount then becomes, in the jargon, temporarily "unavailable" and is subject to only half the 5 basis point underwriting fee.

One might argue that this provides dubious benefit to the lending bank. After all, what is the point in deliberately foregoing half the underwriting commission? The carrots are the potentially reduced capital requirement for the lower risk and the maximum margin on drawings of 12.5 basis points, which is argued to be higher than the borrower might normally be expected to pay.

The borrower pays all reserve asset costs and the front-end fee is 7.5 basis points.

Elsewhere, Union Carbide's \$250m credit is likely to be increased to \$350m. Cable and Wireless has a \$100m sterling commercial paper programme arranged by Morgan Grenfell, with Hambros and Kleinwort Benson as additional dealers. Nederlandsche Middestandsbank has a \$180m certificate of deposit facility with S.G. Warburg and Morgan Grenfell.

This announcement appears as a matter of record only.

OCTOBER 1987

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Deutsche Bank AG
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The Taiyo Kobe Bank, Ltd.
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Participants

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DUE 1995

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BANCO INDUSTRIAL DE BILBAO
BANCO SANTANDER DE NEGOCIOS

BANCO ESPAÑOL DE CREDITO, S.A. (BANESTO)
BANCO HISPANO AMERICANO, S.A.
BANCO POPULAR ESPAÑOL, S.A.
BANCO DE VIZCAYA

Managers:

BANCO NATWEST MARCH
DRESDNER BANK A.G.
Sucursal en España

BANQUE INDOSUEZ
Sucursal en España
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INTERNATIONAL CAPITAL MARKETS & COMPANIES

Minister opposes purge at Statoil

By Karin Posselt in Oslo

MR ARNE OEIEN, the Norwegian Oil Minister, has made clear that he will not agree to the replacement of top management at Statoil, despite fresh evidence of serious financial problems at the state-owned oil company.

A Norwegian government report published last week concludes that cost overruns from the expansion of Statoil's Mongstad refinery now amount to nearly Nkr5bn (\$777m), and that the project can never guarantee profitability, even after write-offs and depreciation costs.

However, the minister says that he does not expect, nor will he support, a majority call in the Storting (Norwegian parliament) for top executives of Statoil to resign.

In early October, Mr Oeien ordered an inquiry into the Mongstad affair after Statoil had let it be known that it had calculated that costs would overrun by Nkr8.8bn. The original budget for the expansion project, which would boost capacity by 2.5m tonnes, called for an investment of Nkr6.8bn.

The revelation prompted politicians to call for the resignation of Mr Arne Oeien, the company's vice-president, and the board of directors.

The government report sharply criticised Statoil's mismanagement of the project, but the minister defended the company as an instrument in oil affairs for the Norwegian state.

Mr Oeien denied allegations that the company had too many projects to administer which inhibited its ability to perform efficiently. He characterised the report as a "brutal dissection of the whole process which led to the project's cost overrun," but urged understanding from Norway's politicians when they debate its findings.

Among other points, the inquiry found that:

• The project's complexity and costs were grossly underestimated by Statoil.

• The risk element of the project was not clearly defined by Statoil to the Norwegian authorities.

• Changes made to the project by Statoil were unrealistic at the time they were made.

• Foster Wheeler, the US engineering company which provided consultancy services to Statoil, performed unsatisfactorily and the quality of its performance was questioned.

Canal Plus flotation to go ahead

BY PAUL BETTS IN PARIS

CANAL PLUS, Europe's only pay television channel, plans to go ahead with its flotation on November 26 on the French second market despite the current world stock market crisis.

The French channel will float 1m shares at a price of about FF275 each, according to Mr Andre Rousselet, the chairman of the highly successful network controlled by Havas, the French

privatised advertising and media group.

The flotation will raise more than FF400m (\$70m) for the network, which was launched two years ago. After a shaky start, Canal Plus has successfully attracted a growing number of subscribers. At the latest count, it had 2.1m subscribers.

The network, which specialises in feature films and sports, expects to report net profits of

FF400m this year and is expanding its operations in Spain, Switzerland and Belgium.

Mr Rousselet said that despite the difficult stock market conditions, the company was not worried about its forthcoming flotation. He added that the network's shareholders had unanimously agreed not to delay the introduction of the company on the bourse. Apart from Havas, the main shareholders of Canal Plus

include the Compagnie Generale des Eaux, L'Oréal, Societe Generale and Perrier. Mr Rousselet also said there was considerable foreign interest in the pay television channel.

Canal Plus will become the second television network to be quoted on the bourse. TF-1, the country's largest national network, was listed on the second market last summer following its controversial privatisation.

Bang & Olufsen sacks 10% of its workforce

BY HILARY BARNES IN COPENHAGEN

BANG & OLUFSEN, the Danish audio equipment and television manufacturer, has dismissed 250 workers in its Jutland factories, blaming the move on the collapsing world stock market.

The company specialises in equipment for an upmarket public and is noted for the excellence of its design.

Sales should be booming at this time of the year, in the run up to Christmas, but they are in fact falling, said Mr Vagn Andersen, the managing director.

He said that if the markets and consumers do not become more confident, when President Reagan and the US Congress

have decided on their moves to improve the economic outlook, then more lay-offs may be necessary.

The dismissal notices cover about 10 per cent of company employees.

The company improved pre-tax profits in the year ended May 81 from Dkr40m to Dkr60m (\$3.4m) on turnover up from Dkr1.78bn to Dkr1.9bn. Sales development was hit by the declining value of the dollar, however, and export sales, which increased by 22 per cent defined in local currencies, were up by only 13 per cent when converted to kroner.

Banque Indosuez to take control of stockbroker

BY GEORGE GRAHAM IN PARIS

BANQUE INDOSUEZ, the main banking subsidiary of the recently privatised Suez group, is to take control of the Paris stockbroker, Cheuvreux de Virieu.

The bank is among the last of the major French banks to announce its plans to acquire stockbrokers, whose capital is to be opened up to outside investors by a stock exchange reform law now passing through parliament.

Cheuvreux is ranked third among French brokers in the equity sector.

The broker made FF27m (\$4.7m) net profits last year, on

turnover of FF210m, and expects to make FF30m this year, on turnover of FF240m.

Indosuez will take a majority stake in a new holding company formed with Cheuvreux's two partners and 14 senior staff. This company will progressively take 92 per cent of the stockbroker.

The bank's existing equities department and the broker will together have a share of around 7 per cent of the French equity market, and co-operation with Indosuez's overseas broking subsidiaries, such as W.L. Carr in London and the Far East, are expected to lead to substantial increases in trading volume.

Ball Corp pulls out of Berlin drinks can venture after losses

BY SARA WEBB IN STOCKHOLM

BALL CORPORATION, a US packaging company, has decided to step out of its drinks can joint venture in Berlin and is paying PLM, its Swedish partner, DM45m (\$15.1m) to take the loss-making plant off its hands.

The Berlin joint venture, called PLM-Ball, has made heavy losses since it started production in 1984.

ELM says that the plant's current financial problems stem from the depressed prices in West Germany for its steel beverage cans. The plant has been burdened with high interest and depreciation costs

which will be cut by about 50 per cent after PLM's financial restructuring measures.

The Swedish packaging group said that it expects productivity and efficiency at the plant to improve next year, and is optimistic about a price increase for cans.

Under the agreement, Ball will be relieved of its guarantees and obligations connected with its investment in the plant, but will continue to provide technical assistance for machinery at both the Berlin plant and at PLM's Swedish plant.

PLM, which is itself currently being taken over by Industrivärdet, the investment company, said that the plant needs financial restructuring and that it plans to invest SKr70m (\$11.5m) this year. Mr Paul Bergqvist, division manager for PLM Pac, said that the plant is expected to show a profit in 1988.

The acquisition of Ball's 50 per cent stake will make PLM the third largest producer of beer and soft-drinks cans in Europe, after National Can, part of Triangle of the US, and Schmalbach, part of the US Continental Can Group.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount \$m	Maturity	Av. life years	Coupon %	Price	Bank names	Offer yield %
US DOLLARS							
USDA	200	1992	5	9 1/2	101 1/2	Barings Paribas	8.742
Flint III (c)+	35	1991	4	18 1/2	100.10	Samas Int.	-
D-MARKS							
BPCE+	200	1994	7	6	100	Dresdner Bank	6.000
SWISS FRANCES							
USF&E+	120	1996	-	5 1/2	99 1/2	SBC	5.579
Valve++	60	1991	-	4 1/2	100	Credit Suisse	4.250
Japan Credit Bureau++	30	1992	-	5 1/2	99 1/2	Credit Suisse	5.388
Phillips+	200	1994	-	4 1/2	100 1/2	Credit Suisse	4.437
Banque Industrielle++	40	1992	-	5 1/2	100	Bal-Ichi Kangyo Bk	5.250
City of Yokohama++	100	1997	-	5	100 1/2	Credit Suisse	4.968
STERLING							
Barings Mortgage Fin.(c)+	100	2014	5-7	35 1/2	100	Barings Securities Ltd.	-
Barings Bank+	250	1997	10	10 1/2	100 1/2	BZW	10.148
DANISH KRONER							
Nordic Inv. Bank++	250	1990	3	(b)	100.10	Waburg Secs.	-
LUXEMBOURG FRANCES							
Neste Chemicals++	300	1992	5	7 1/2	100 1/2	BEI	7.688
YEN							
Hokkaido Elec.Power++	200m	1992	5	(c)	100.30	Yamauchi Int.(Em)	-

+Not yet priced. ++Floating rate note. ++Private Placement. (a) Convertible. (b) 30bp over 3m Libor. (c) 1997 50bp over 3m Libor. (d) 100bp over 3m Libor. (e) 100bp over 3m Libor. (f) 100bp over 3m Libor. (g) 100bp over 3m Libor. (h) 100bp over 3m Libor. (i) 100bp over 3m Libor. (j) 100bp over 3m Libor. (k) 100bp over 3m Libor. (l) 100bp over 3m Libor. (m) 100bp over 3m Libor. (n) 100bp over 3m Libor. (o) 100bp over 3m Libor. (p) 100bp over 3m Libor. (q) 100bp over 3m Libor. (r) 100bp over 3m Libor. (s) 100bp over 3m Libor. (t) 100bp over 3m Libor. (u) 100bp over 3m Libor. (v) 100bp over 3m Libor. (w) 100bp over 3m Libor. (x) 100bp over 3m Libor. (y) 100bp over 3m Libor. (z) 100bp over 3m Libor. (aa) 100bp over 3m Libor. (ab) 100bp over 3m Libor. (ac) 100bp over 3m Libor. (ad) 100bp over 3m Libor. (ae) 100bp over 3m Libor. (af) 100bp over 3m Libor. (ag) 100bp over 3m Libor. (ah) 100bp over 3m Libor. (ai) 100bp over 3m Libor. (aj) 100bp over 3m Libor. (ak) 100bp over 3m Libor. 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Post office to leisure complex

WATES SPECIAL WORKS has secured £22m of refurbishment contracts spread across both the private and public sectors.

Largest is the conversion of the former GPO sorting office in Eversholt Street, London NW1, into the Crowndale Centre, a complex of leisure, residential, health care and commercial facilities. The £5.5m project for the London Borough of Camden and Hill Samuel Services commences shortly and is scheduled for completion in just over a year.

Renovations costing £2.8m to flats on the Churchill Gardens Estate for the City of Westminster includes Keats, Shelley and Chaucer Houses, all nine-storey 1960s blocks. Tenants remain in occupation throughout the one-year contract period.

For the London Borough of Hounslow, repairs to houses on inter-war estates has commenced and the £2.4m job will run for 15 months.

The Property Services Agency has awarded contracts totalling £2.2m for major roof renovations and internal refurbishment works at the Queen Mary Building, Royal Naval College, Greenwich and the refurbishment of the Referees Office at St. Dunstan's House, Fetter Lane, London EC4. The work at Greenwich will take two years to complete while that at Fetter Lane is scheduled to finish in July 1988.

Costing about £2m, the conversion and fitting out of the Barbican Health and Fitness Centre at Aldersgate Street, London EC1 will run for 30 weeks. Modelled on similar clubs in the US, the Barbican Centre is the first of its kind in the UK and will contain a swimming pool, whirlpool, indoor running track and exercise areas. At Adelaide House, London Bridge, EC4, a £4 week £3.2m contract for Berwin Leighton starts later this month.

Wates Special Works is to carry out the refurbishment of 167 bedrooms of the recently acquired New Barbican Hotel in Central Street, London EC1 for Mount Charlotte Hotels. Commencing this month the contract is valued at £1.5m and is to be completed in four months.

CONSTRUCTION CONTRACTS £44m orders for AMEC

Recent new business for the AMEC group includes four contracts valued collectively at over £44m for civil engineering and building projects.

Subsidiary Fairclough Civil Engineering has won a £10.8m contract from the Department of Transport for a 27-month refurbishment of the Tees Viaduct carrying the A16 at Middlesbrough. Through its tunnelling operation, the same company is to construct some 10km of tunnels for the Thames Water Authority's London ring main on an £11.8m contract.

A £13.7m contract to refurbish and modernise the old Lloyd's building in Lime Street, London,

has been awarded to Fairclough Building, which has also been appointed main contractor for a town-centre refurbishment contract worth close to £8m awarded by Amalford Properties, part of the Heron Group.

Called The Bridges shopping centre, it is in Sunderland, and a major feature of the project will be roofing-in the complex, which contains 70 shop units in three malls. Foundations and columns will be constructed to carry the glass-roofing. An environmental and services network will be installed. The centre will remain trading during the 62-week contract, with much of the work outside shopping hours. To avoid the Christmas and January sales

season work has ceased to restart on February 1, with completion scheduled for next autumn.

Fairclough, which is currently constructing the £30m Galleries re-development of Wigan centre, has won a £2m contract to upgrade and modify the town's Oldlow Mill. This landmark, overlooking Meanes Park, is being converted into technical college premises for Wigan Metropolitan Borough Council. The major element in Fairclough's phase of the project is a full-scale internal reconstruction of the three-floor building to create teaching, administration and accommodation facilities. Other work includes a new entrance, windows and doorways.

Newcastle hospital £23m ward block

RAM's design for a ward block at the Royal Victoria Infirmary, Newcastle, has been put out to tender, and won by joint venture contractors TAYLOR WOODROW CONSTRUCTION, CWS, and WILLIAM STEWARD. The Northern Regional Health Authority has accepted a tender of £23.27m.

The ward block will provide 452,000 sq ft of accommodation in two linked buildings, providing 600 beds, eight operating theatres, as well as suites for out-patient consultation, diagnostic and treatment facilities including an organ grafting and cardiac unit, an artificial kidney unit and a special investigation and treatment unit, together with staff accommodation and 84 maternity beds.

Each of these two buildings will contain three floors of nursing and treatment accommodation.

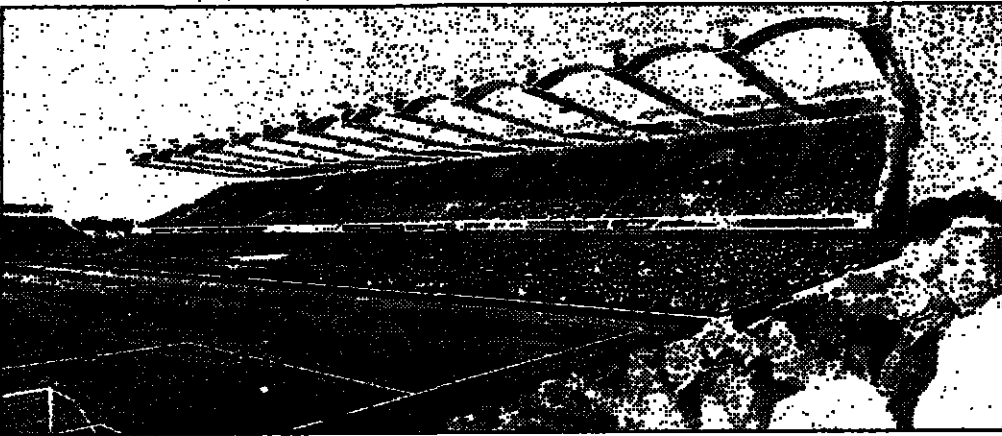
The design links the two buildings by enclosed corridors at the three upper levels, joining lift and stair cores. At ground level, the link will pass through a largely open circulation area between the main entrance and the main reception and medical records working area.

The ward block will have a reinforced concrete frame, clad in brick. Construction is expected to start in the beginning of the New Year, and due to be completed in summer 1991.

The ward block will have a reinforced concrete frame, clad in brick. Construction is expected to start in the beginning of the New Year, and due to be completed in summer 1991.

Warehouse at Redhill

LOVELL CONSTRUCTION (SOUTHERN) has won contracts worth a total of over £16m. At Redhill, Surrey, the company is building industrial and warehouse units for Partridge Developments (£3.3m). In Weymouth, Dorset, under a 56-week £1.75m contract, the company is constructing a superstore shell on a town centre site for Carter Commercial developments. Lovell has recently completed a new headquarters on the outskirts of the town for the Weymouth Town Football Club, freeing the former football ground for the superstore. At Maidstone, Kent, an office complex is being built for Knights Property Company under £1.75m 61-week contract. Other work includes industrial units for Percy Bilton at Leatherhead, Surrey (£2.5m), and completion and fitting out of a superstore at Worthing, Sussex, for Brighton Co-Operative Society (£2m).



Dow-Mac Concrete has won a £1.2m order involving the supply of pre-cast concrete components to the £4m design and build contract for the new west stand at Newcastle United's football ground at St James' Park. Main contractor is Anglian Construction. Work will begin this month and the stand is due for completion in February. It will have capacity for 6,500 spectators and 50 executive suites. Dow-Mac is a subsidiary of NCC Group.

50 million degrees Celsius

For a billionth of a second, ten laboratory lasers focus all their energy on a single, minute spot. The energy created in that brief moment is 200 times greater than the total energy output of the USA.

At the lenses' focal point is a steel ball containing heavy hydrogen atoms. The ball is heated to 50 million degrees Celsius and at this intense heat and pressure the nuclei of the hydrogen atoms melt together, that is, they effect fusion.

Fusion releases enormous quantities of energy—hundreds of times more than that used to initiate the process. This experiment is taking place at Lawrence Livermore National Laboratories in the USA, and its purpose is to start up a fusion process similar to that which takes place in the sun. The heavy hydrogen used as fuel is present in ordinary water. One litre of water contains energy corresponding to 250 litres of gasoline. Compared



This tiny little fusion fuel cell will produce the same amount of energy as 19 litres of oil.

with the nuclear fission of today, fusion technology will be far more efficient. And it will not produce radiation. However it does require a whole new, advanced technology.

And what does SKF have to do with this experiment? Actually, quite a lot! Precise focusing of the lasers is critical to achieve the high temperature. Focusing is along three axes. The system is fully computerised and adjustments are all carried out in a billionth of a second.

The adjustment mechanism used is based on precision products from SKF, 110 roller screws from our French subsidiary Transrol.

Our roller screws and equipment for converting rotational movement into linear, are used in many other applications such as, control of telescopes, dish antennas, robot arms, machine tools, valves, medical rehabilitation equipment and aircraft.

SKF 1987, third quarter

Sales of the SKF Group for the nine months ended September 30, 1987 amounted to 14 437 MSk, an increase of 4.2% compared with 13 851 MSk for the corresponding period of 1986. Income after financial charges and expenses amounted to 1 114 MSk, an increase of 10.6% compared with 1 053 MSk for the corresponding period of 1986.

In West Germany the strong Deutschmark hampered the country's export industry in particular, with a resulting negative impact on SKF's business. Exports from Italy were also affected adversely by the trend of the currency market in that country.

SKF continued to strengthen its position globally in the third quarter and the year-to-date figures are very encouraging.

Sales (MSk)*

14 437
13 851
12 881
11 630
10 676

Income (MSk)*

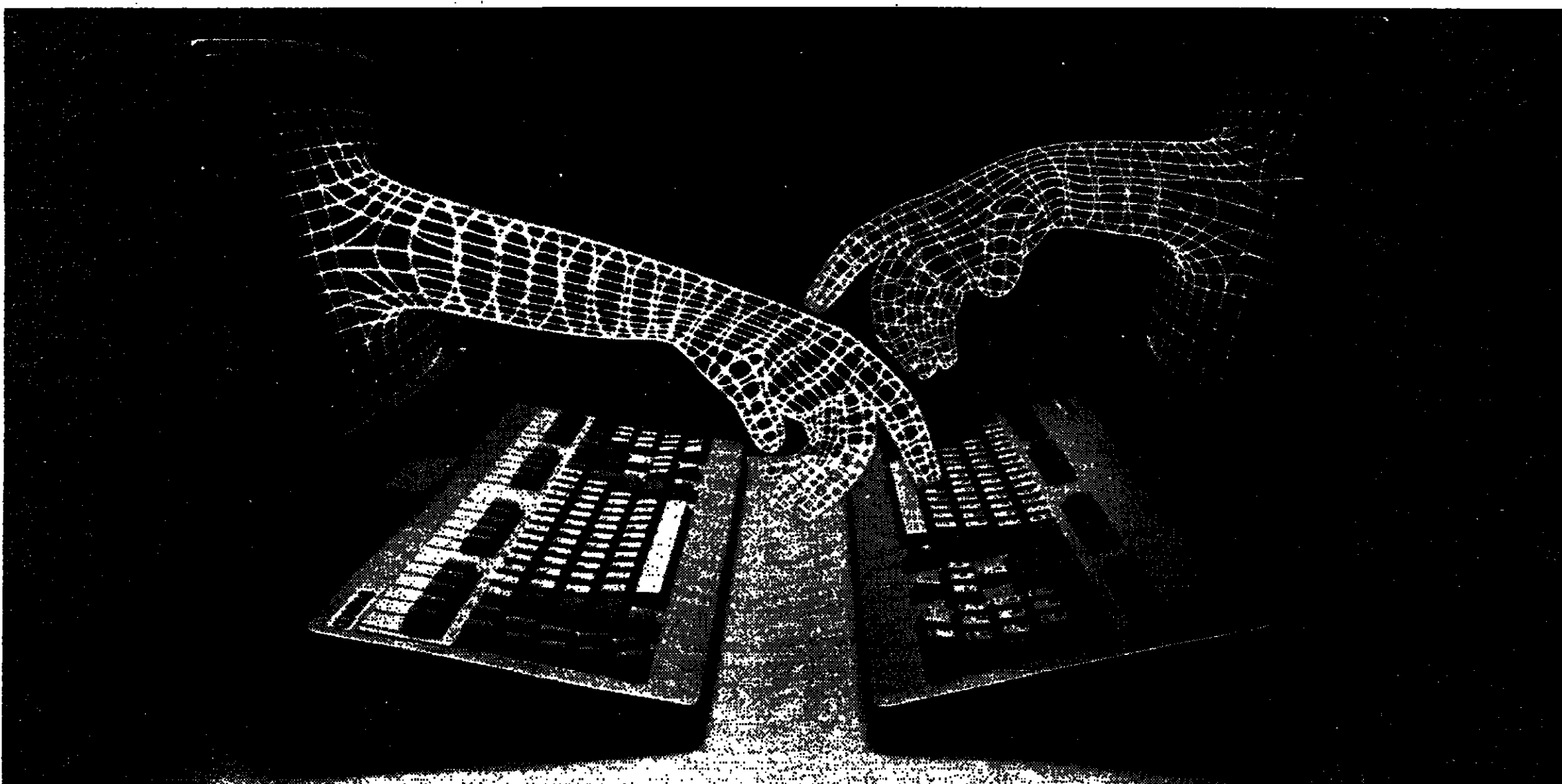
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Aktiebolaget SKF
S-415 50 GÖTEBORG
Sweden

SKF

The electronic factory: teaching machines to like one another.

**Innovative
technology from
AEG. Here's more:**



Electronic intelligence from AEG lets various machines in a manufacturing plant actually communicate with one another. We call it "flexible automation." And, just as with people, machines working together mean increased production, lower energy costs and improved quality. And the real people get to take up more challenging jobs.

AEG (U.K.) Ltd., 217 Bath Road, Slough, Berkshire, Great Britain SL1 4AW. Headquarters: AEG Aktiengesellschaft, Z 15, Theodor-Storm-Kai 1, D-6000 Frankfurt 70, West-Germany

We currently have, under test, an automatic speech recognition system which will turn computers into "listeners" as well as "thinkers". Future generations of computers will take direction from the human voice, not the keyboard. The result? Simplified interaction between human and machine, and expansion of computer applications.

AEG has already brought to market stoves which "cook cold". These technological wonders are induction stoves which collect heat in the pot rather than the cooking surface. The stove turns itself off when the pot is removed or emptied. The result? Greater safety and appreciable energy savings.

The M-Bahn, the world's most modern transportation system, is based on Magnetic Levitation and Propulsion technology. Wheels have been replaced by permanent magnets which hold the vehicles suspended above the guideway. Acceleration and braking of the vehicles are accomplished by means of travelling electro-magnetic fields—silently and without exhaust emissions. The control, safety and power supply systems, as well as the electrical equipment for the vehicles themselves, have all been developed by AEG.

AEG

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 13 1987					THURSDAY JANUARY 12 1987			DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Figures in parentheses show number of stocks per grouping											
Australia (59)	94.88	+6.1	79.54	92.11	4.41	89.41	75.82	87.12	180.81	85.80	90.37
Europe (16)	100.77	+0.5	97.64	100.77	7.55	97.85	78.34	100.77	101.07	97.50	98.37
Japan (48)	100.77	+0.4	88.28	95.09	8.91	100.41	84.70	87.65	134.89	99.19	93.82
Canada (127)	102.38	+0.2	85.83	97.78	3.16	102.19	86.20	97.49	141.78	98.15	100.33
Denmark (38)	109.86	+1.8	92.60	112.33	3.02	107.96	91.07	96.10	124.83	98.18	95.18
France (120)	85.21	+0.4	68.76	64.75	3.65	87.91	67.19	87.19	77.79	97.39	97.39
United States (93)	85.21	+0.4	64.35	67.55	2.81	75.45	63.65	66.60	104.93	68.91	97.32
Hong Kong (46)	84.90	+3.9	71.17	85.02	5.77	81.68	68.91	81.81	158.68	75.82	87.32
Ireland (14)	107.26	+1.8	89.92	96.20	4.71	105.32	88.86	94.41	160.12	96.20	90.04
Italy (94)	79.24	+0.4	68.96	73.75	4.71	73.75	68.81	73.75	73.04	73.04	73.04
Japan (48)	115.19	+4.9	113.93	116.13	0.59	128.88	108.72	111.12	161.28	100.00	89.40
Malaysia (36)	102.59	+2.1	86.00	96.96	3.62	100.48	84.76	96.84	193.64	98.74	99.59
Mexico (14)	193.69	+2.9	162.98	360.01	0.84	199.57	168.95	368.21	402.59	99.72	95.24
Netherlands (37)	107.55	+0.8	81.78	97.47	4.71	107.55	81.78	97.47	107.55	81.78	97.47
New Zealand (23)	77.82	+2.4	65.24	67.47	4.67	75.99	64.10	65.34	138.91	75.99	90.16
Norway (24)	114.65	+3.6	96.11	99.83	2.73	110.70	93.98	96.41	185.09	90.53	104.45
Singapore (22)	97.57	+3.3	81.79	92.54	2.60	94.48	79.70	89.16	174.28	90.19	100.25
South Africa (61)	122.82	+0.7	100.07	88.86	4.81	122.82	100.07	88.86	100.00	100.00	100.00
Taiwan (43)	123.23	+1.7	103.51	106.57	3.85	121.17	102.22	104.61	168.81	100.00	83.12
Sweden (34)	96.30	+5.9	82.41	86.70	2.58	92.84	78.32	83.73	136.44	88.95	103.51
Switzerland (53)	82.67	+3.9	66.87	72.28	2.92	79.76	67.29	69.11	111.11	73.65	92.50
United Kingdom (332)	120.39	-0.6	100.95	100.95	4.50	121.11	102.17	102.17	162.87	99.65	94.78
USA (582)	201.00	-0.3	84.67	101.00	3.65	101.31	85.46	101.31	137.42	92.83	101.52
Europe (946)	98.49	+0.4	82.56	85.08	3.92	98.14	82.79	85.29	150.02	92.25	94.47
Pacific Basin (679)	131.72	+4.9	110.43	114.07	1.80	125.58	105.94	109.14	158.77	100.00	89.44
Europe-Pacific (1625)	118.47	+3.3	99.31	102.51	1.84	114.65	96.71	99.62	143.65	100.00	91.51
North America (100)	100.00	+0.3	84.73	3.62	83.65	100.00	84.73	100.00	100.00	100.00	100.00
Europe Ex. UK (614)	84.89	+1.2	71.17	75.21	3.40	83.88	70.76	74.65	111.77	78.89	94.63
Pacific Ex. Japan (221)	89.93	+4.8	78.47	87.31	4.75	85.79	72.37	83.39	164.03	83.17	99.95
World Ex. US (3827)	113.00	+5.2	98.92	102.57	1.91	114.36	96.47	99.60	143.38	100.00	91.98
World Ex. US (2207)	113.00	+5.2	98.92	102.57	1.91	114.36	96.47	99.60	143.38	100.00	91.98
World Ex. SA. (2948)	111.33	+2.0	93.33	100.04	2.50	109.19	101.11	100.35	139.47	100.00	95.63
World Ex. Japan (2951)	100.02	+0.1	83.85	94.79	3.77	99.91	84.28	94.86	134.22	95.44	98.71
The World Index (1949)	111.40	+1.9	93.39	101.97	2.52	109.28	92.19	100.29	139.73	100.00	95.69

Base values: Dec 31, 1986 = 100

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Amendments to indices for November 12 applied to the following: Australia, Hong Kong, Italy, the regional indices and the World Index.

Amendments to indices for November 12 applied to the 1990 data.
Latest prices for South Africa were unavailable for this estimate.
Latest Belgian and Danish prices were not fully updated.

BASE LENDING RATES

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87		Feb 88		May 88		Stock
		Vol.	Last	Vol.	Last	Vol.	Last	
GOLD C	\$460	—	0.508	—	—	—	—	\$462.40
GOLD C	\$480	294	1.170	34	18	3	—	—
GOLD C	\$200	196	1.308	84	10.90	3	18.10	—
GOLD P	\$460	—	—	—	2.50	—	—	—
GOLD P	\$475	37	0.30	359	0.90	3	13.30	—
GOLD P	\$460	101	4	23	16.50	—	—	—

		Nov 87		Dec 87		Jan 88		
		Vol.	Last	Vol.	Last	Vol.	Last	
EOE Index C	F185	168	4.90	67	10.50	127	238	F185.13
EOE Index C	F120	20	0.30	66	4	127	8	—
EOE Index C	F125	—	—	64	6	127	188	—
EOE Index C	F120	199	9	54	15.50	127	188	—
SPFI	F190	40	1.90	7	1.80	254	4.50	F190.65
SPFI	F125	223	0.90	110	1.00	127	1.30	—
SPFI	F120	—	—	36	0.60	127	1.30	—
SPFI	F125	—	—	30	0.50	127	2.50	—
SPFI	F170	19	1.90	184	3.50	10	4.50	—
SPFI	F120	19	1.30	280	3.50	—	—	—
SPFI	F125	10	4.20	212	3.00	—	—	—
SPFI	F120	—	—	28	34	—	—	—
SPFI	F125	—	—	50	40A	—	—	—

[illegible]

LONDON RECENT ISSUES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible][illegible]**FT CROSSWORD No.6,483**

SET BY PROTEUS

A 30x30 crossword puzzle grid. The grid is black and white, with black squares indicating non-letter positions. Numbers 1 through 30 are placed in the starting squares of the words. The grid is as follows:

1	2	3	4	5	6	7	8
9							
10						11	
12			13				
14							
15					16		17
18							19
20					21		22
23		24					25
26						27	
28							
29							
30							

ACROSS

- Model meeting composer on journey (5)
 - Is almost sick we hear to see such poor creatures (8)
 - Morally bound to big deal perhaps (4)
 - Trick to trap duck may distract (5)
 - Departed with some chocolates (4)
 - Animal reef allowed to play (6-4)
 - French writer putting clergyman in place (7)
 - Possesses a mere fraction of plant (6)
 - Attacked when drunk (6)
 - Disastrous finding one way to be in fashion (7)
 - Removed by absent-minded (10)
 - Composer of some spectacular neologisms (4)
 - Object d'art of endless excellence (5)
 - Tie that attracted wild animals (5,4)
 - Criterion for established model (8)
 - Colour-set taken in and given a break (6)
 - Author giving strumpet early lead (8)
 - Trick for vegetable producer (9)
 - Urges in embryo birds (4)
 - Sifts puzzling questions (7)
 - Toss ideas around then die hard (5,5)
 - Domestic with hot water (5)
 - Make mistake about group or reef (6)
 - Stric with leading instructor (6)
 - Not bad start (6)
 - Enter earth while revolving (6,5)
 - Vile wreck astounding awful crimes to worker (8)
 - Bergyzman always in a team (6)
 - Final test of French drink (7)
 - Frénetic female crazy about another woman (6)
 - Course material used for some Eurusean vessel (6)
 - Send up directions for strumpet (6)
 - Stake in metropolitan tea-shop (4)
- The solution to last Saturday's prize puzzle will be published tomorrow of winners accepted Saturday.

DOWN

- 1 Author giving strumpet early lead (8)
 - 2 Grant for vegetable producer (9)
 - 3 Urges in embryo birds (4)
 - 5 Sifts puzzling questions (7)
 - 6 Toss ideas around then die card (5)
 - 7 Deal with hot water (5)
 - 8 Make mistake about group or reef (6)
 - 9 Strict with leading instructor about best heart (8)
 - 4 Kick earth while revolving (6,5)
 - 7 Vill wretch attributing awful crimes to working (8)
 - 8 Geyserman always in a tear (8)
 - 10 Final test of French drink (7)
 - 1 Another female crazy about another woman (6)
 - 2 Coarse material used for some Etruscan vase (6)
 - 4 Read up directions for streak (8)
 - 6 Stake in metropolitan theatre shop (4)
- The solution to last Saturday's word puzzle will be published in the names of winners next Saturday.

Continued on next page

FT UNIT TRUST INFORMATION SERVICE[illegible]

امروز از اهل

LONDON SHARE SERVICE

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

AMERICANS—Continued

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

Individuals	Share	Price	Lot	Cost	Gain	Loss	Net
John A. S. A. 1	139	26.5	1000	3672.50	24	587.74	24
Feb	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 2	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 3	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 4	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 5	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 6	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 7	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 8	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 9	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 10	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 11	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 12	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 13	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 14	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 15	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 16	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 17	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 18	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 19	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 20	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 21	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 22	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 23	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 24	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 25	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 26	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 27	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 28	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 29	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 30	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 31	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 32	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 33	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 34	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 35	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 36	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 37	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 38	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 39	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 40	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 41	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 42	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 43	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 44	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 45	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 46	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 47	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 48	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 49	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 50	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 51	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 52	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 53	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 54	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 55	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 56	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 57	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 58	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 59	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 60	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 61	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 62	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 63	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 64	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 65	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 66	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 67	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 68	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 69	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 70	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 71	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 72	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 73	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 74	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 75	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 76	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 77	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 78	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 79	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 80	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 81	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 82	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 83	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 84	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 85	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 86	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 87	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 88	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 89	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 90	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 91	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 92	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 93	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 94	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 95	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 96	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 97	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 98	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 99	139	26.5	1000	3672.50	24	587.74	24
John A. S. A. 100	139	26.5	1000	3672.50	24	587.74	24

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]**DRAPERY AND STORES—Cont.**[illegible]

ELECTRICALS

[illegible]

ENGINEERING—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]**FOOD, GROCERIES, ETC.**[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

	RAF	113	111B	762.5	47	3.0	75
Mar.	RAF	232	24.8	9.0	2.6	4.2	12.3
Apr.	RAF	232	24.8	9.0	2.6	4.2	12.3
May	RAF	232	24.8	9.0	2.6	4.2	12.3
Jun.	RAF	232	24.8	9.0	2.6	4.2	12.3
Jul.	RAF	232	24.8	9.0	2.6	4.2	12.3
Aug.	RAF	232	24.8	9.0	2.6	4.2	12.3
Sep.	RAF	232	24.8	9.0	2.6	4.2	12.3
Oct.	RAF	232	24.8	9.0	2.6	4.2	12.3
Nov.	RAF	232	24.8	9.0	2.6	4.2	12.3
Dec.	RAF	232	24.8	9.0	2.6	4.2	12.3

INSURANCES

[illegible]

هذه رسالة

Stock	Price	Last Sale	Div Rate	Yrs Div	Yld Div
Anglo-Am	60				
Atlas Mines NL	22				
Columbia NL 25c	25				
Elgin Ore Gold 50	25			0.2	2.2 1.3
Elmore Gold Mine 25c	170		0.02	1.6	6.9
Fluorine Hill 25c	26				
Golden Pacific 450.00	26				
Goldstream 25c	26				
Maclean 25c	79 1/2				
Manitowick Mines NL	190		0.05	1.5	2.6
Montreal 25c	26				
Northwest 25c	25				
Orinoco 25c	12 1/2	102.50	1.7	1.8	
Platinum 25c	4				
Plum 25c	14				
Plum 25c	22				
Plum 25c	10 1/2		1.65	0.1	2.2
Plum 25c	22 1/2		1.6	2.1	
Plum 25c	22 1/2		1.6	2.1	

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Stock	Price	Last	Mo	Yr	P/E
Deere Group Ltd.	23	29.9	3.9	2.7	2.2/2.1
Meridian Am Fin 10p	25				
United Ins. Brokers	135	11.5	NA	2.5	4.1/6.2
Windsor Res. 10p	28				
Industrie Petr. 'A'	28				
Industrie Petr. 'B'	28				
Industrie Petr. 'C'	28				
Industrie Petr. 'D'	28				
Industrie Petr. 'E'	28				
Industrie Petr. 'F'	28				
Industrie Petr. 'G'	28				
Industrie Petr. 'H'	28				
Industrie Petr. 'I'	28				
Industrie Petr. 'J'	28				
Industrie Petr. 'K'	28				
Industrie Petr. 'L'	28				
Industrie Petr. 'M'	28				
Industrie Petr. 'N'	28				
Industrie Petr. 'O'	28				
Industrie Petr. 'P'	28				
Industrie Petr. 'Q'	28				
Industrie Petr. 'R'	28				
Industrie Petr. 'S'	28				
Industrie Petr. 'T'	28				
Industrie Petr. 'U'	28				
Industrie Petr. 'V'	28				
Industrie Petr. 'W'	28				
Industrie Petr. 'X'	28				
Industrie Petr. 'Y'	28				
Industrie Petr. 'Z'	28				

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REGIONAL & IRISH STOCKS					
is a selection of Regional and Irish stocks, the latter being quoted to Irish currency.					
78	Fm 12% 97/02	£111½			
68½-57	Aris	208			
65	CPI 10/00	55			
£11½-11	Carroll Int.	135			
	For full details see page 10				
	Connaught	405			
	Hed Oil U.S.A.	100			
	Nelson Group	40			
	Irish Ropes	12½d			-5%
	SBS	355			
	Unilever	200			

TRADITIONAL OPTIONS					
3-month call rates					
\$	NEI				
70	Nat West Bk	15			

50	Pleaser	24
37	Poly Tech	39
34	Rascal Elton	35
34	RHM	35
52	Rank Org Ord	30
52	Rascal Intol	30
50	STC	36
50	Seams	37
50	TI	37
50	TGS	32
48	Teco	38
48	Thorn EMH	65
35	Trust Houses	25
45	T&N	25
34	Unicorn	26
34	Victoria	25
32	Wellcome	42
15	Property	36
22	Birk Land	36
20	Steel Securities	68
20	MEPC	68
325	Peachey	48
15	Gils	

17	Enroll	36
50	Barrick Gold	52
52	Chatterbox	18
43	Prostar	13
32	Shell	125
65	Tricostrol	11
35	Ultramar	25
75	Winn	
22	Cum Gold	125
45	Lowell	28
55	Rip 7 Zinc	100

Selection of Options traded is given on the London Stock Exchange Report Page.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

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Continued on Page 35

هكذا اعتنى الله

AMEX COMPOSITE CLOSING PRICES

Stock	Div	P/E	5	100s	High	Low	Close	Change	Stock	Div	P/E	5	100s	High	Low	Close	Change	Stock	Div	P/E	5	100s	High	Low	Close	Change	Stock	Div	P/E	5	100s	High	Low	Close	Change
AT&T	118	9	8%	5%	1%	-	-	-	DI Ind	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	PresCo	10	65	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431	421	421	-	-	-	ProCme	10	185	6%	6%	6%	6%	6%	6%
Avco	2	29	2%	2%	2%	2%	2%	2%	Dow	10	10	5	1%	1%	1%	1%	1%	ImpCoG10	10	465	431														

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Continued on Page 33

And ask Roberto Alves for details.

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

US budget deal may put pressure on Group of Seven

BY COLIN MILLHAM

NOVEMBER so far has been a slightly less traumatic month for investors than October, but midway through there was still every sign that the period of consolidation might prove illusory. Good news was mixed with bad and the future direction of the dollar, sterling, and interest rates remained in doubt. As last week ended the dollar received a boost from the September US trade deficit of only \$14.08bn, which was towards the lower end of market forecasts, and an improvement on August's shortfall of \$15.68bn. There were also hopes that the White House and the US Congress would agree on a package of measures to cut the budget deficit by more than the \$23bn set out in the Gramm Rudman bill.

The deadline for agreement is the coming Friday, and although the market would like a cut of \$40bn in the deficit, there was optimism that a compromise of around \$30bn would soon be announced. On the other hand a one month improvement in the trade position and optimism about the budget deficit did not prove the US was out of the economic wood.

Sterling was on the sidelines, but there was a hint of concern that lower UK interest rates could create problems at some time in the future. This was reflected in an upturn of longer term rates in London. The rise of 0.5 p.c. in October UK retail prices was above most expectations, taking the annual

inflation rate up to 4.5 p.c., the highest since February 1986.

There was also disappointment at the fall of 1 p.c. in September UK industrial production, and a decline of 0.5 p.c. in manufacturing output.

Impact on sterling was muted however, as an improvement in London share prices and forecasts that Thursday's bank lending for October will be high, reduced the pressure for another cut in UK bank base rates.

The authorities will be forced to weigh the importance of domestic needs against the international situation. If there is a compromise on the US budget deficit, which the US regards as a major concession to the rest of the world, there may be a price to pay.

Finance ministers from the Group of Seven have tended to stand back from an early meeting, awaiting news on the US the budget deficit.

If Europe and Japan are satisfied the US has done all that can be reasonably expected on the budget front, a G7 meeting may follow, aimed at supporting the dollar. This could include a programme of coordinated interest rate cuts, including another

reduction in UK bank base rates.

Bank of England support for the dollar caused a rise of \$6.7bn in October UK official reserves, which was about three times market expectations. This could lead to a large rise in Thursday's M3 money supply growth figure for last month, but because it can be regarded as a distortion may be ignored by the authorities. City economists also expect lit-

tle respite in the strong growth in UK bank lending, putting the October figure at \$36bn to \$37bn. West Germany and Japan are already concerned about excess money supply growth, but for the sake of international cooperation, the need to stabilise the dollar, and restore confidence in the equity markets a round of coordinated interest rates may be on the agenda for any G7 meeting.

2 IN NEW YORK

Nov 13	Close	Previous Close
2 week	1.7455-1.7465	1.7460-1.7470
3 month	1.7465-1.7475	1.7470-1.7480
6 month	1.7475-1.7485	1.7480-1.7490
12 month	1.7485-1.7495	1.7490-1.7500

Forward premium and discount apply to the US dollar.

STERLING INDEX

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

CURRENCY RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

CURRENCY MOVEMENTS

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

OTHER CURRENCIES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

FORWARD RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

MONEY MARKETS

A dilemma for the Bank of England

THE BRITISH authorities appear to be caught in something of a dilemma as far as monetary policy is concerned. Friday's economic news was not encouraging, with inflation rising more than expected, and industrial production looking weak.

This week will see publication of figures on the public sector borrowing requirement; bank lending; and money supply. The view on the PSBR is con-

UK clearing bank base lending rate 9 per cent from November 5

plated by the BP share issue.

Securities forecasts a flat PSBR, because it expects receipts from BP to be zero.

A sum of \$1.5bn will have flowed from the Government to BP but County NatWest believes very little will have come back from the underwriters.

If the BP issue, at a time of falling share prices, had not presented such a problem County NatWest believes the PSBR would have seen a net repayment of \$1.1bn.

Greenwell Morgan expects a repayment of \$1.5bn, and James Capel forecasts \$1bn.

According to County NatWest there is also likely to be a distortion in Thursday's money supply figures from Bank of England intervention on the foreign

exchanges to prevent sterling rising.

Most forecasters expect a rise of about 1.25 p.c. to 1.5 p.c. in October sterling M3 growth, but County NatWest forecasts 2.5 p.c.

Bank lending is forecast to fall back from September's very high figure of \$4.4bn, but to remain substantial at \$2.5bn to \$3bn.

But international events may still demand another cut in bank base rates.

MONEY RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

LONDON MONEY RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

WEEKLY CHANGE IN WORLD INTEREST RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

NEW YORK

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

LONDON MONEY RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
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100	153.75	153.75
100	153.75	153.75

WEEKLY CHANGE IN WORLD INTEREST RATES

Nov 13	Close	Previous Close
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
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100	153.75	153.75
100	153.75	153.75
100	153.75	153.75
100	153.75	153.75

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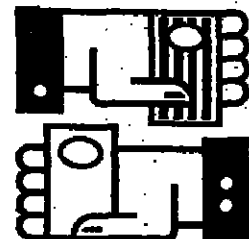
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SECTION III

FINANCIAL TIMES
SURVEY

Despite the stock markets' crash, the growth of cross-border investment should not be underplayed, writes

Barry Riley. The next decade or two may see more quoted companies becoming international, however, rather than fund managers assembling global portfolios.

Long-termers will remain

SHREWD PROFESSIONALS or panic-stricken lemmings? The glamorous image of the global fund management industry has been badly dented by the October crash which affected all the world's major stock markets.

It came almost out of the blue, after a wonderful nine months for most of the leading exchanges. London peaked in July, Wall Street in August, Australia in September, Hong Kong and Japan not until October. The bull market, it seemed, would go on and on.

But while the equity fund managers were reveling in the strength of prices, their bond counterparts were under heavy pressure. Dollar bond prices were tumbling more or less all year until October, with yields on long Treasury bonds moving into double digits at one stage.

The weakness of bonds was an ominous sign of financial instability. As the months went by it became increasingly difficult for the Americans to finance their government deficit. Heavy intervention by the Japanese, the Germans and the British to shore up the dollar on the foreign exchanges served to shift some of the pressure into those nations' internal financial markets, and interest rates were rising during

the summer almost throughout the world.

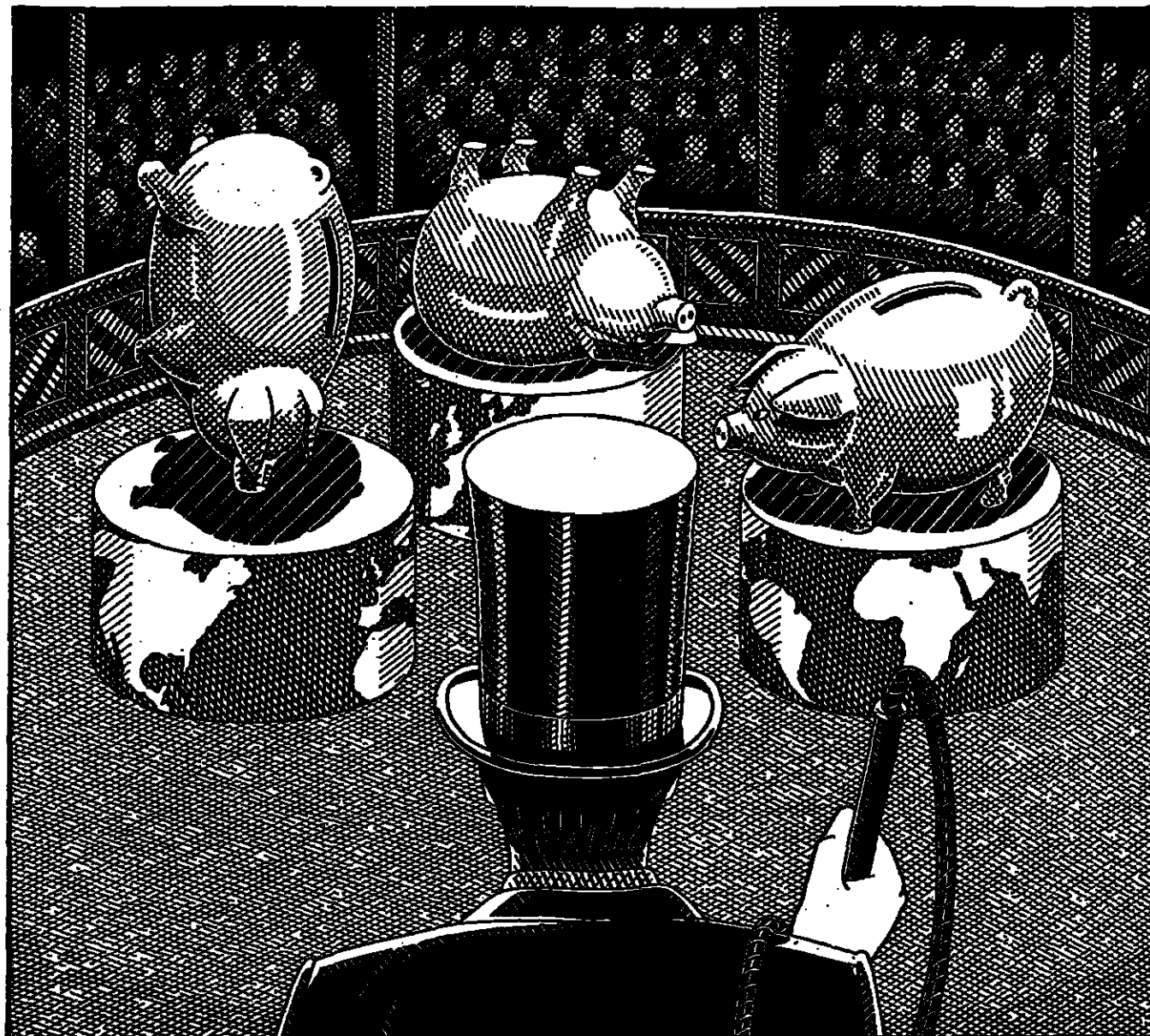
In the end the crack came on Wall Street, with several sizeable daily falls in the Dow Jones Average leading to the record 500-point collapse on Black Monday, October 19. The panic spread from time zone to time zone, with the Far East and Europe apparently feeding on the tales of disaster emerging overnight from Wall Street.

As the shocking developments unfolded, a number of questions began to be asked.

■ Did the stock market crash have any fundamental connection with the state of the world economy, which, except for parts of continental Europe, appeared to be in reasonably good shape?

■ Was the fast-declining trend of new global fund managers, often backed up by high technology resources, and trading on the options and futures exchanges as well as the cash markets, having a destabilising effect on international security prices?

■ Did the much-vaunted diversification advantages of global funds count for anything if all the big markets were going to fall by about the same amount at almost exactly the same time, more or less regardless of the strengths and weaknesses of particular national economies?

INTERNATIONAL
Fund Management

The immediate effect of the equity crash was a big move into bonds as investors started to worry more about deflation and recession than inflation. Currency funds attracted attention too, as the dollar began to slide after being heavily supported for many months after February's Louvre accord.

There has been evidence that the crash has dealt a heavy blow to the development of global equity fund management. In a crisis the first instinct is to return to home base. Many of the funds experimenting with foreign investments - for instance, US pen-

sion funds - appear to have been readier to dump their recently acquired holdings of foreign stocks than to sell their domestic core investments.

Even before the markets tumbled there had been doubts about the durability of the global equity market. Multinational companies had been encouraged to set up local listings in centres around the world and issue stock locally in order to establish a global shareholder base. But they have been bothered by "flow-back" to the domestic market of each company.

For example, in May this year

Barclays Bank issued shares in Tokyo on the understanding that Japanese funds were willing to take long-term holders of the stock. In fact, within a few weeks almost all the paper had found its way back to London.

Eager investment banks have been working hard to develop an international market for equities, but they have tended to run ahead of the capacity of funds to absorb foreign securities. However, the real growth in cross-border investment should not be underplayed. The typical UK pension fund now has rather more than 20 per cent of its as-

sets in foreign equities, and although the corresponding figure for US pension funds is only about 8 per cent that proportion has been rising. Meanwhile, there has been a substantial growth in sales of mutual funds in many countries, increasingly with an international flavour.

To an extent, the demand for diversification may reflect fashions which will change in more difficult circumstances. But there is a more durable reason for cross-border investment: the existence of huge financial imbalances between countries, which can only be financed

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through the accumulation of foreign assets by the creditor nations.

This leaves Japan, in particular, and also Germany, though no longer Britain, piling up overseas investments. Until now the Japanese have stuck very largely to the dollar which can easily accommodate the size of the investment they need to make. But with the dollar sliding, and dollar bond prices also heading south for most of this year, the results have been unfortunate in terms of investment performance, and Japanese investment flows have been spilling over into many other markets too.

On the issuer side, the declining creditworthiness of banks has made bank lending to major companies an uncompetitive form of finance compared with securities which can be directly issued by those companies, whether bonds or equities.

Meanwhile, governments in a number of developed countries have seized on the opportunity to sell public sector assets into the stock market boom, so that a number of giant, newly listed concerns have become available of a kind eminently suitable for inclusion in the portfolios of large, globally-oriented funds.

However, governments have become much more prepared to insist on the modernisation of out-dated bourses which are typically riddled with monopolies and restrictive practices. After London's City Revolution a year ago, we are now seeing "Le Big Bang" in Paris and a long-overdue increase in foreign membership of the Tokyo Stock Exchange.

In the less developed world, however, politicians tend to be much more reluctant to open up their domestic markets to the mercy of international investors.

There is much talk of equity-for-debt swaps, to relieve the banks of some of the burden of Third World debt which has gone sour. In a practical move, for instance, overseas funds have been set up to participate in conversion of Philippine debt into equity under Circular No 1111 of the Central Bank of the Philippines.

But promising stock markets, such as those of South Korea and Taiwan, remain largely closed to foreigners. The hope is that they will be encouraged to open up by the prospect of the availability of large sums of foreign capital which will drive local equity prices up to high levels and will therefore lower the cost of new capital to local industry.

There could be a price to be

paid, however, in the form of high volatility. The alarming instability of the international market in the past few weeks cannot have encouraged the Koreans or the Taiwanese to lower the barriers that protect their well-ordered internal markets.

Nor can the gyrations of the global market have impressed company chiefs even in the advanced countries. So long as the world economy looks reasonably steady, multinational executives are unlikely to be convinced that there is a fundamental reason for such a drastic shake-out.

Global fund managers therefore face criticism that they are short-term wheeler and dealers. Even in good times they are fond of switching out of Finland into, say, Spain or Singapore on the basis of a few altered parameters in their computerised asset allocation models, thus introducing unwanted instability to the markets they enter or leave. In bad times they will run for cover, leaving the global market to crash.

Undoubtedly the worldwide screen-based information systems have encouraged such behaviour, allowing instant access to information and often providing opportunities for dealing, even outside the time zone of the domestic markets. But by no means all global investors are actually like this. Many are prepared to take long-term investment decisions on the basis of fundamental analysis. The short-termers will now retreat, but the long-termers will remain.

Certainly it is the stockpickers who will have suffered less damage to their credibility than the market timers or the seekers after diversification who have found, within the past few weeks, that it has been almost impossible to find protection anywhere.

The major trend of the next decade or two could well be that quoted companies will become even more international and will deliver global diversification to investors in their local markets, rather than that fund managers will put together global portfolios from stocks accumulated in national stock exchanges around the world.

Naturally there will always be speculative funds keen to dabble in the latest hot local stocks in whatever is the go-go market of the day. But the Hong Kong unit trusts which topped the global monthly performance charts for September were looking very sick indeed in October. There is something to be said for staying closer to the mainstream.

Barings' world

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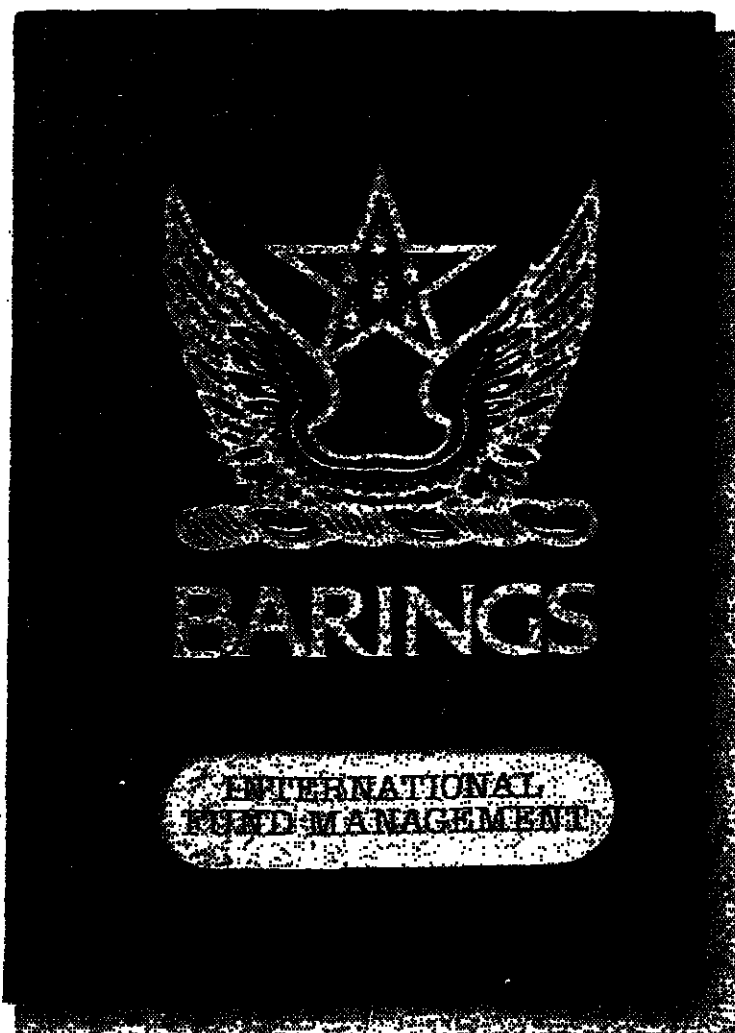
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INTERNATIONAL FUND MANAGEMENT 2

A true global equities market is still some way off

Foreign investors sell heavily in the crash

IF ANYBODY needed evidence that the world of equity investment has become a much smaller place in recent years, they had only to watch the massive round-the-world swings in stock markets during the traumatic last weeks of October this year.

Yet, paradoxically, this in no sense is proof that there is a genuinely internationalised market in shares. If anything, the stock market crash is likely to have been a major setback to a global market which was still in the early stages of development.

If this seems confusing, it is necessary to distinguish actual investment across borders from the sheer availability and rapid dissemination of information around the world, which make financial markets appear superficially global.

In the recent maelstrom of the markets, a fall in Hong Kong helped to produce a fall in London which in turn contributed to a drop in New York, which did not help the Asian markets as they began another day.

But this effect was much more to do with a sudden psychology of fear than with actual investment flows. There was some concern - so far unfounded - that there could be chain reactions of financial problems around the world; and there was also natural concern about the impact on the world's economy.

There have, it is true, been major advances towards international share ownership and trading. These have been fostered heavily by investment banks seeking to expand their own business across borders, especially in equity markets where they could earn lucrative commissions and trading profits by comparison with the sharply pared profit margins in the intensely competitive international bond market.

Clearly, all financial market participants are operating in a world changed forever by technology. The latest information about the world's largest companies, as well as on share price and market movements, is instantly available to investors. Increasingly, they receive research which looks at companies within the context of their industry globally rather than domestically. Research about the prospects for foreign stock markets small and large is distributed widely

and quickly. Fund managers have also tended to be more prepared to look abroad because of the close competition between them. Not that foreign investment is a new phenomenon. Fund managers, especially in the UK and on the continent, long ago developed substantial expertise and built

The global market has found it difficult to reconcile differing issuing procedures

up their investments in foreign markets. But they have developed this further, and meanwhile the newcomers on the scene, the Americans and Japanese, have begun to diversify their holdings. Their foreign investments now represent substantial amounts of money, though they are still a small proportion of their overall portfolio.

This, in turn, has meant that there have been considerable volumes of shares traded outside their home country. In the US, a market in American Depository Receipts - legally, US securities which represent foreign shares - has long been in existence and has become more active. British companies' ADRs are the most actively traded. Some British companies, like Jaguar, Reuters and Imperial Chemical Industries, have built up large numbers of US shareholders.

Companies, meanwhile, have been encouraged to believe that this is desirable. The argument is that if they are multinational concerns with operations in many countries, their shareholder base should match that. This helps them to make foreign acquisitions, and means that their name is familiar in many markets, enabling them more easily to raise capital on the finest available terms to fund expansion.

Consequently many companies have made international issues of shares, or of bonds either convertible into equity or carrying warrants to buy shares. Some have done so because they have outgrown their home stock markets, and some - mostly British and French - on being privatised.

Despite all this, the path to globalisation has not been at all smooth. Investors seeking either to put money abroad or to get their money out have found that it can take an inordinately long time to do so, because of outmoded settlement procedures. It can also be a very costly business, because of the extraordinary frequency with which trades fail to be completed.

Moreover, the global market has found it difficult to reconcile differing issuing procedures in the various domestic markets, and those differences have sometimes led to poor distribution of issues and to "flowback" - the sale of shares back into the domestic market.

These problems have suggested that the investment banks, in their avid desire to promote the market, have run ahead of its present scope and failed to take full account of the importance of the domestic market. For stock markets, even if some trading takes place outside them, remain essentially domestic entities.

One of the early indications to emerge from the stock market crash is that foreign investors have been among the heavy sellers of shares. Scandinavian markets, for example, have seen quite heavy sales of their shares back into the domestic market. Japanese bankers say that Japanese institutions tended to be selling their funds back into Tokyo during the crash.

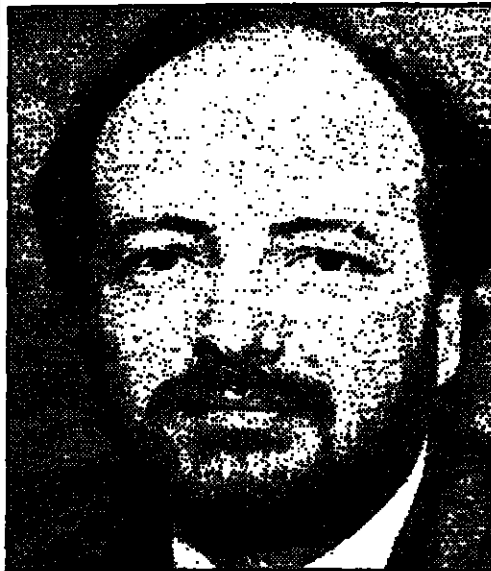
If foreign shareholders do turn out to be loose holders - and the case is not yet proven - issuing companies could begin to wonder whether the huge amount of management time and expense which they put into investor relations programmes around the world is really worthwhile.

They may feel that foreigners are perfectly able to obtain research on their companies if they wish to, and that those who actively seek out the information and invest on the basis of it are likely to be the firm holders as a result.

So, despite big increases in cross-border investment, we are still a long way from a true global equities market. Future development will depend on a restoration of confidence in equities over the coming months.

Alexander Nicoll

Volatility makes data crucial



Gordon Johns: got the big picture right



Philippa Hooper: indices can distract

THERE WAS a time when it was respectable for bond fund managers to rely on simple interest rate anticipation strategies to run their multi-currency funds.

Now, fund managers are under greater pressure to perform, in far more volatile world currency and bond markets. This has made their decision making process a much more complicated matter.

They need to have as much data at their disposal as possible, because ideally decision-making has become a matter of weighing up an optimal number of possibilities, as opposed to relying on single inspired decisions.

This means that computerisation, both of market-based data and analytical systems, is more and more important, says Mrs Philippa Hooper, of American Express Asset Management, which manages funds on behalf of clients of American Express Bank and Shearson Lehman Brothers.

Mrs Hooper described American Express's decision-making process like this. First, the fund managers try to capture a hoped-for 80 per cent of the views in the market on the different routes down which the world economy might go.

This includes looking at a range of economic forecasts and expectations in the market. Then the fund managers try to decide how far these are likely to be exceeded or disappointed.

On this basis a forecast is made, on a three-month view updated monthly, and between

three and five scenarios constructed, ranging from the least to the most optimistic for the bond markets.

These scenarios will give rise to a number of different expected returns, viewed at this stage in local currency terms. Currency forecasts are then superimposed on to these theoretical bond returns.

The final stage is the selection of a model portfolio which assumes there are no specific restraints on the multi-currency fund to which it might be applied.

At this point the portfolio will be compared with one or other of the ranges of bond indices. But American Express, like other fund management groups, is chary of being seen as a "closet indexer".

Most fund managers say they will use an index such as the Salomon World Bond Index, as a yardstick, but will deliberately avoid mirroring it slavishly. "The problem with looking at an index too much is that you tend to stick to it instead of concentrating on the objectives of the portfolio," said Mrs Hooper.

The model portfolio is then adapted to the constraints of individual funds; a crucial stage in the process, as many a rigorously thought-out plan has floundered on inadequate consultation between the client and the fund manager.

As one fund manager said: "Bitter experience has taught that it's essential to know which benchmark he wants you to

beat." The selection of individual sectors of the bond market will be the last stage, and is viewed as the least important. As Mr Gordon Johns, head of fixed interest investment management at Leasard Investors said: "If you've got the big picture right, it doesn't really matter which instruments you select."

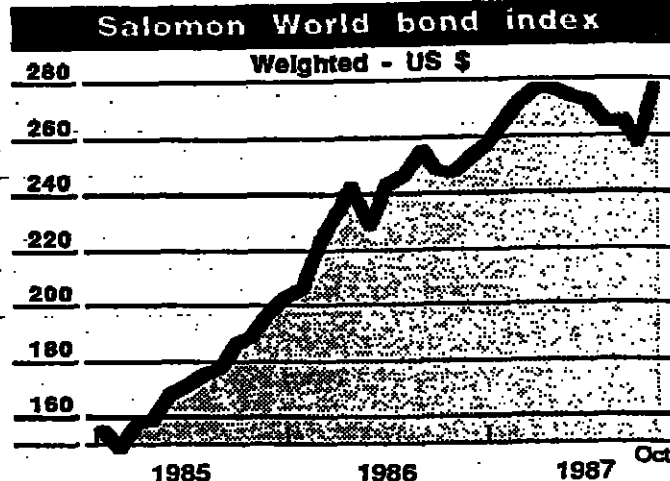
Generally, multi-currency fund managers will concentrate on the government bond markets, because they set a premium on liquidity. "Broadly, we have to feel we can sell a holding within one week," said one fund manager.

Most say also that they will tend to concentrate on cash instruments rather than bond futures. Partly this is because a number of clients are still wary of the futures market.

But in any case fund managers tend to prefer the cash markets. In the case of most of the government bond markets, they say, there is such active trading in London that there is little need to use the futures markets. Additionally, because they have specific maturities, futures take away the manager's ability to control of yield curve exposure.

However, most will use the futures markets in a limited way, mainly at the point at which a fund manager is moving into a market and is primarily concerned with gaining exposure.

Most fund managers will also use options occasionally, though they tend to stress their risk management rather than spec-



Most fund managers say they will use an index such as the Salomon World Bond Index, as a yardstick, but will deliberately avoid mirroring it slavishly. The model portfolio is then adapted to the constraints of individual funds

lative aspects. For instance, if a fund manager were becoming cautious about a market, he might sell all his bonds but buy options or bond warrants exercisable into an equivalent amount. This way, most of his portfolio would be in cash, but he would retain exposure to the market.

Eurobonds are viewed as less suitable than government bonds, because they are less liquid; but fund managers are often required to invest in them by their offshore clients.

However, they will limit themselves to the best quality Eurobonds, issued by sovereign and supranational credits. Interestingly, despite the increasing talk about the illiquidity of the Eurobond market, most seem satisfied with the service provided by the main London-based Eurobond trading houses.

Eurobonds, of course, are useful for improving marginal return, since they provide higher yields than those of government bonds. But increased yield tends to be a subsidiary consideration.

This also means that fund managers tend not to invest in synthetic securities in order to increase return. "The problem is that the best synthetics in terms of return tend also to be difficult to sell," said one fund manager.

The overall emphasis, then, is on trying to get the broader asset allocation decisions right and sticking to the simpler instruments.

However, few would deny that marginal returns can be signif-

cantly enhanced by keeping an eye out for particular anomalies and discrepancies between different sectors - for technical changes in the markets.

For instance, over the last two weeks in October the yield differential between the French and West German government bond markets widened out to between 3% and 4% per cent - a move which could not be explained in economic terms.

To see this coming, you would have needed to be aware of the greater volatility in the French government bond market created by the newly established Paris futures market.

All fund managers view currency decisions quite separately from interest rate decisions. The clearest demonstration of the importance of this is that, over the last few years, the US dollar bond market has been one of the best performing markets in terms of capital gains, but one of the worst in terms of currency.

Generally, fund managers will hedge their currency exposure through the forward foreign exchange markets, rather than by using currency options and futures.

This is because the forward foreign exchange markets are much more liquid than the derivative currency markets. It is, for instance, possible to deal in large size in the forward markets on bid-offer spreads as tight as one tenth. Dealing in currency options is more time consuming.

Clare Pearson

In the US, international diversification has suffered a setback

Facing a sceptical audience

THE CRASH of 1987 was a great international leveller. The markets in Tokyo, London and Europe fell like a row of dominoes, as trading passed along the time zones during those memorable days in October.

After this experience, many US investment institutions were naturally tempted to jump to a bitter conclusion: that all of those claims they had been hearing from foreign brokers about the way that worldwide portfolio diversification could reduce volatility and flatten out the ups and downs of the investment cycle were so much bunk.

Nothing had really changed, it seemed, from the days when conservative US investors could afford to ignore entirely the rest of the world's financial markets. Europe and Asia still took their direction largely from New York, merely exaggerating the price movements, both on the way up and the way down.

That kind of increased volatility might have its attractions to the short-term gun-slinging variety of fund manager, but it could scarcely be seen as an endorsement of the most powerful argument advanced in recent years in favour of international investment: the "prudent man" doctrine enshrined in the Employee Retirement Security Act (Erisa), which laid down that pension fund trustees could, under certain circumstances, be personally liable if they failed to take a "prudent man" precautions to diversify their portfolios.

During the past few years, the "prudent man", as viewed by the consensus in the US financial community, has woken up to the existence of international investment opportunities. And many a trustee has found it difficult to rebut the smooth-talking brokers and investment banking salesmen, when they have pointed out that failing to take advantage of the 60 per cent of worldwide stockmarket capitalisation represented by non-US equities might well be seen as a stubbornly imprudent course.

After the crash, the international investment salesman are likely to face a much more sceptical audience once again. When Wall Street sneezed, the rest of the world caught pneumonia, just as the many convinced American parochialists had argued all along.

Of course, one major market did prove immune to the Wall Street virus - Tokyo, where October's stockmarket decline was confined to a relatively painless 15 per cent correction. But Tokyo's astonishing resilience offered scant consolation for most American investors who had been seeking international diversification - for Japan, with its "ridiculously overvalued" share prices, was the one foreign market that prudent US investors had already abandoned in droves from the middle of 1986 onwards.

Thus Tokyo's uncanny ability to insulate itself from foreign influences only confirmed suspicions about government rigging and sharp practices being rife in overseas markets - and added insult to injury for many US institutions which had been looking to more "rationally priced" markets like London and Sydney to hedge their exposure on Wall Street.

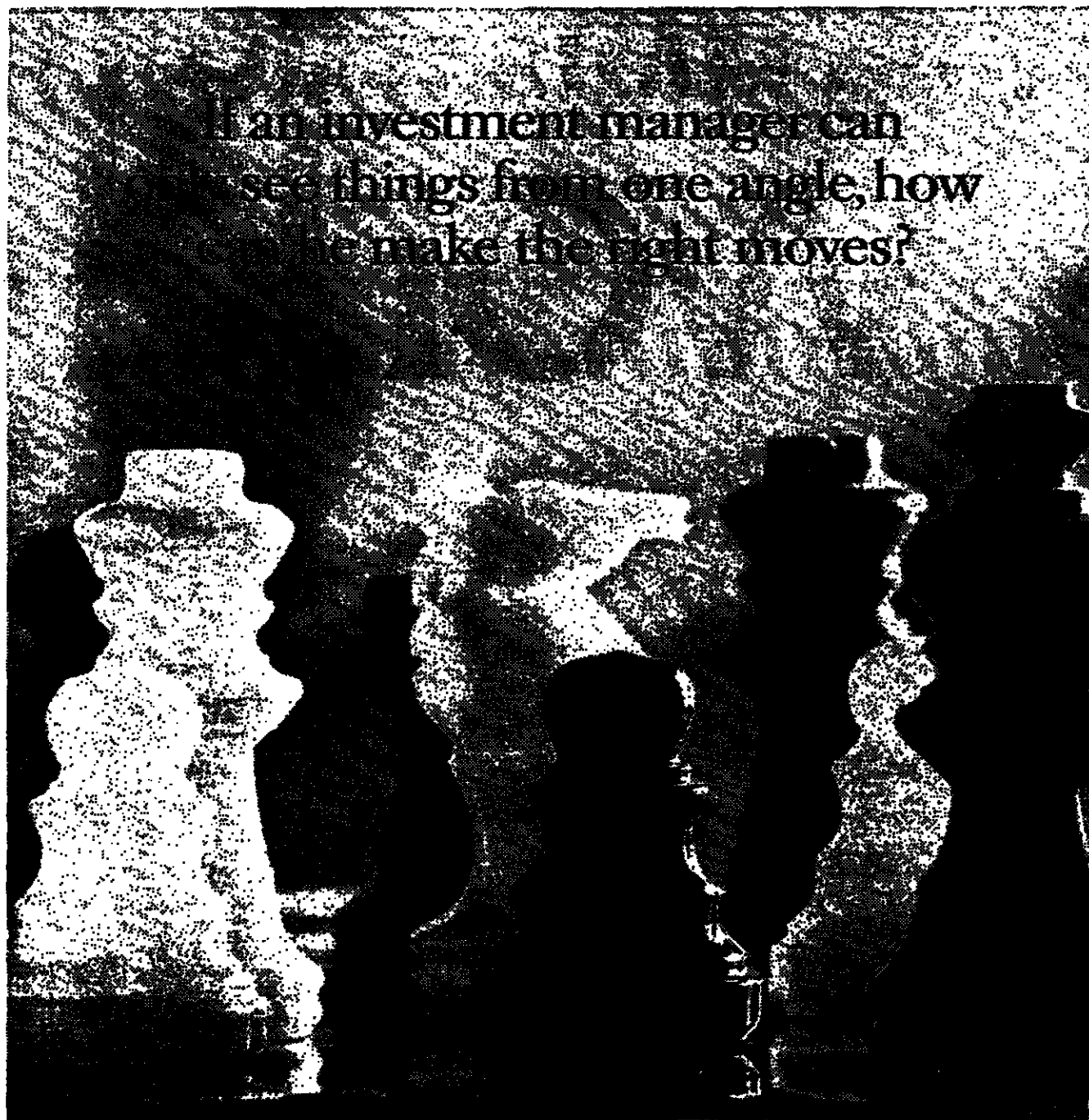
There can be no doubt, therefore, that the cause of international diversification by US investors suffered a serious setback in October. The scale of this setback could prove surprisingly large, for it is often forgotten in centres of international finance like London or Zurich, how tentative and shallow is the commitment to world markets by US

institutions and individual investors alike. Only 3.7 per cent of the assets of large US corporate pension funds, for instance, are held in international equities, according to a recent survey by Greenwich Associates. Even in the largest funds, with total assets of more than \$800m, this foreign proportion rises only to 4.2 per cent. In fact, only 30 per cent of the funds surveyed in 1986 had any foreign stockholdings at all, with another 11 per cent indicating that they expected to start some international investing during 1987. Only among the funds with over \$300m in assets did the proportion using or intending to use foreign equities rise above 50 per cent.

The public sector pension funds in the US have been even warier of foreign stockmarkets. Only 0.7 per cent of their assets were held in foreign equities in 1986, according to Greenwich Associates - and even by 1989, this proportion is planned to rise to a mere 2.3 per cent.

Of course, even two or three per cent of an immensely large number still adds up to a lot of money. According to the Securities and Exchange Commission,

Continued on facing page



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INTERNATIONAL FUND MANAGEMENT 3

Japanese fund managers must now compete with foreigners

Visiting teams have an advantage

IMAGINE A politically stable country of 120m highly educated inhabitants sitting on savings of US\$2.7 trillion (million million) but with few sophisticated ideas of what to do with their money. Local fund managers have had the market pretty much to themselves - until May of this year, when foreigners were allowed to compete for the pot of gold.

Welcome to Japan. For the next couple of decades, it will offer the richest pickings for the world's fund managers and it is one of the few industries in which foreigners may be fairly said to have a comparative advantage over their Japanese counterparts, namely in looking after a global portfolio of investments.

The Swiss and the British have been in the business for 100 years and more. The Americans aren't bad at it either. The Japanese are learning fast, but for the next five to 10 years the competitive edge enjoyed by the foreigners should enable them to penetrate a market now wide open to outside competition.

Obviously, most of the \$2.7 trillion will stay in Japan where local investment advisers should be able to keep ahead of the foreign competition. But there will be plenty invested abroad. Nomura Research Institute forecasts that Japan's net overseas assets will rise to more than

\$550bn by 1995, three times more than it is today. And that is only the net figure. Japan's gross overseas assets totalled \$727bn at the end of 1986, of which \$258bn was invested in securities. Holdings of foreign stocks and bonds should rise dramatically - as will the demand for good advice on what to buy and sell.

Gaijin fund management companies have already started to make inroads into the Japanese savings market. There are no official figures yet, but foreign firms in Tokyo say that they are now looking after \$10bn of local savings, 50 per cent more than they were at the end of 1986 and three times more than a year earlier.

Japan is not noted for easily giving up turf to foreign institutions, so how has this come about? Mostly by fortuitous timing. The authorities got around to regulating fund managers only after the Toshi Journal scandal of 1983-84, when 8,000 small savers were swindled out of ¥18.4bn. It was Japan's worst case of securities fraud. So a new law was drafted at a time when pressure from foreign governments to open Japan's financial markets was at its height. To look for discretionary management work have to get a licence. There are now 115 licensed fund managers, of whom 23 are foreign.

There are two ways to make a living in the business. One is to give advice to others on where they should put their savings. The other is to manage the money on their behalf; fees are fatter for this service, but until last May foreigners have not been able to do it in Japan.

There are now 115 licensed fund managers, of whom 23 are foreign.

It was not that there were any particular restrictions on foreigners dishing out investment advice in Japan, but in the past nobody was willing to pay for it. Japanese stockbrokers provided the advice free of charge. But when savers grew and people started to look abroad for a profit, the greater ignorance and often greater risks gave foreign fund managers a new opportunity.

Under the new law, investment advisers have to register with the Finance Ministry, and registered advisers who wish to look for discretionary management work have to get a licence. There are now 115 licensed fund managers, of whom 23 are foreign.

There are a lot more of the latter waiting in the queue for a licence. The industry now has an association with 223 members (out of a total of 310 registered advisers) and an executive board of 15 which includes representatives from two foreign licensed fund managers, Merrill Lynch and Baring International. The chairman is a former senior finance ministry official, Mr Hiroshi Yonezono. The Japan Securities Investment Advisers Association held its first board meeting last month.

Japan still has a long way to go. Investment advisory firms manage money for individuals. Securities houses operate investment trust funds (at arm's length, allegedly), which are really a way of grouping together individual accounts. Companies can invest in a special account called a *tokoku*. In the past they have all tended to operate rather like high-interest deposit accounts, offering a similar semi-guaranteed return rather than competing to see which can give the highest rate.

In this environment, foreign fund managers have adopted a simple approach to winning business: starting at the top with the institutions holding the most investments and gradually going down the league tables. The market is so enormous that there

should be plenty for everybody. That does not mean it is easy. Corporate loyalties being what they are in Japan, many big institutional savers will stick with their traditional Japanese fund managers, even though they may be earning them a lower return than that offered by foreigners. But savers are becoming increasingly open-minded about who looks after their investments.

One big slice of the market, private pension funds, remains out of bounds to all but 38 institutions - the life insurance firms, Daiwa Bank, the trust banks and (a significant concession) the foreign trust banks. The pot contained ¥34 trillion at the end of last year and the Welfare Ministry forecasts it will expand to ¥60 trillion by 1995. By then, the setting is that pension funds will be open to other institutions.

The Finance Ministry has already set up a special committee to examine the question of liberalisation, and the signals emitted so far are positive. One sign of a change in attitude: the Welfare Ministry has started to publish the rates of return on the funds offered by the different participants without naming the company. They range from 8 to 16 per cent a year. Last year, says Yasuda Trust, it came top.

Charles South

Japanese outflows

Home is best in unstable times

JAPAN'S FUND managers, who preside over the largest pool of capital in the world, had been cutting back on their overseas investments even before the recent crash in world equity prices. The trend looks likely to continue.

Thanks to the country's huge trade surpluses with the rest of the world, Japan's overseas portfolio investments had been expanding at a breathtaking speed, from \$13bn in 1983 to \$100bn by the end of last year. Japanese institutions scrambled to invest in instruments that could give them higher interest rates than they could find at home. For the most part they plumped for the safest and most liquid of investments: US treasury bonds.

Even as the dollar began its decline against the yen, institutions held on and even increased their purchases. In part, this was because the yield on US bonds helped to offset their foreign exchange losses. At the same time, however, Japanese institutions were reluctant to diversify, largely because of their relative lack of knowledge of foreign equity markets.

Over the last year, though, as the dollar continued to slide, foreign merchant banks and securities houses began to hope that some significant portion of this flow of Japanese funds could be channelled into US equities or European financial instruments. The Japanese were taking such a beating on currency, the argument ran, that the US stock market must look more attractive. After all, the average price-earnings ratio on the New York Stock Exchange looked cheap compared with Tokyo's towering P/E.

In the end, the hoped-for diversification never really arrived. The Japanese, it appears, have decided that when things look unstable, home is still best. As a result, long-term outward investment tumbled from \$6.7bn in August to \$3.3bn in September, according to the monthly balance of payments report from the Ministry of Finance published in October. The average for the first seven months of 1987 was \$10bn.

Economists in Tokyo say that the fall showed the extent of Japanese concern about the dollar even before the worldwide equity crash in October. In fact, the decline almost certainly

helped to precipitate the crisis by undermining confidence in the US currency, they said. As their confidence was already declining before the recent crash, it sank even further afterwards. The general feeling in Tokyo is that the crash started in New York and dragged down the rest of the world with it.

Although this feeling is widespread in other parts of the world, the Nikkei stock index has remained more resilient to the turmoil than the indices of

Portfolio Investments expanded from \$13bn in 1983 to \$100bn by the end of last year

other major bourses. By early November, it was trading at about 14 per cent off its peak, while New York and London were off by much more.

Mr Noriaki Suzuki, international bond investment manager at Norinchukin Bank, the farmers' co-op and the largest institutions investor in Japan, said recently: "The foreign currency markets and bond markets are in a bear trend. It's a very bad situation and we are managing our funds defensively." As a result, the bank is keeping its funds in short-term fixed income securities in Japan.

Somewhat surprisingly, however, the Japanese institutions have not deserted US dollar bonds since the crash. In the most recent US treasury bond auction, in early November, the Japanese took about 30 per cent of the 10-year issues and apparently bought about 20 per cent of the 30-year bonds. This is significantly less than previous levels, but not so low as to indicate a major shift in investment strategy away from overseas markets and the dollar.

Analysts in Tokyo believe that the buying may have been encouraged by officials at the Ministry of Finance, who are anxious to prevent further upsets in the world financial markets. Further, Nomura and Daiwa, Japan's two largest stockbrokers, have recently become licensed primary dealers of US government securities. As a result, it is understood, they are anxious to be seen as team players in the US.

Should the dust settle in the world financial arena, foreigners still hope that the Japanese will rethink their investment strategy. European currencies and stock markets have not suffered as badly as the dollar and Wall Street, so the Japanese may consider increasing their investments in Europe.

Indeed, the amount of Japanese funds invested in West Germany and UK government bonds has grown this year. Nonetheless, they remain on a much smaller scale than the outflows to the US.

One of the main problems facing the Europeans is the Japanese concern about liquidity. "They don't feel as comfortable in smaller markets," says Mr David Pike, an economist at UBS, Phillips & Drew in Tokyo. Also, he said, the problem was one of information or the lack of it. "They don't feel as well served in Europe. They get better information from the US - the flow of information is higher. So they don't know as much about Europe. Perhaps the European houses aren't as aggressive as selling Europe as the US houses are in selling the US," he adds.

The Japanese houses, for their part, are working hard to increase their knowledge of European financial instruments, but acquiring this kind of expertise takes time. Nippon Life, the largest life assurance group in Japan, bought a stake in Shearson Lehman Brothers earlier this year. As part of the deal, some 30 Nippon Life staff members will go to Shearson in New York for training each year.

A further problem standing in the way of portfolio diversification is the conservatism of the average Japanese fund manager. Usually a senior member of his financial institution, he is more likely to veto the more adventurous plans of younger employees.

In the meantime, despite the dollar's further decline against the yen in early November, the recovery in the bond market has covered the foreign currency exposure. As a result, the unstable climate will most likely mean that capital outflows from Japan will continue to decline.

In the past, when the Japanese are not investing in the US, they will invest at home. I think that pattern will be repeated," says Mr Pike.

Carla Rapoport

Rough ride for the prudent man

Continued from facing page

US portfolio investment in overseas equities amounted to about \$60bn in 1986, a figure which was up nearly six-fold since 1982. And US exposure overseas is bound to grow substantially more in the next few years, considering that many US institutions - indeed, probably the majority - are only now getting up courage to dip their toes in the international waters.

If, for example, the public sector pension funds really did increase their international investments from 0.7 to 2.3 per cent of total assets, as suggested in the Greenwich survey, that shift alone could amount to over \$20bn.

Currency movements might be expected to prove a further factor encouraging investment out-

flows from the US. But like the fundamental motivation of risk-spreading, the weakness of the dollar could now turn out to be a less persuasive reason for investing abroad than it has been in the past few years.

The 45 per cent depreciation of the dollar since February 1985 has been the most important single factor that has pushed most US-based international funds far ahead of their domestic rivals. At the end of October, a week after the stockmarket crash, the average US international mutual fund was up 129 per cent relative to its level at the beginning of the last phase of the worldwide equity bull market in August 1984, according to Lipper Analytical Services.

The average domestic fund

was up only 54 per cent; thus, the 45 per cent rise in foreign currencies against the dollar probably accounted for about two-thirds of the international funds' superior performance. But even if, as appears likely,

When Wall Street sneezed, the rest of the world caught pneumonia.

the dollar continues falling over the next few years, it seems less plausible that the foreign stockmarkets can repeat their recent record of out-performance. A weakening dollar is likely to hurt the export-dependent economies of Japan and the Pacific Rim at

the same time as it aids the profitability of the US manufacturing sector.

Narrowing world trade imbalances is going to be the primary objective of economic policy throughout the world in the next five years or so. And in order to achieve this, the profitability of US corporations are going to have to rise, while surplus countries like Japan and Germany will have to shift resources from profits and savings into wages and consumption.

Under these circumstances, there may be no great attractions in overseas investment. It is also possible, of course, that international imbalances will prove too intractable to be adjusted through a gradual reallocation of

resources and economic activity between the US, Asia and Europe. In that case, US trade deficits are likely eventually to bring on a severe recession. Such a recession could be even more devastating than a collapse of the dollar for the sluggishly-growing economies of Japan and Europe.

Considering how much this danger has been amplified by the recent crash in world stockmarkets, it is perhaps not surprising that some fund managers are now predicting that substantial purchases of foreign bonds, rather than stocks, may form the next thrust of America's international portfolio diversification.

Anatole Kaletsky

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INTERNATIONAL FUND MANAGEMENT 4

London as a centre Critical mass works in the City's favour

MUCH ATTENTION has been focused on London's role as a centre of trading in international securities. But while trading rooms may be glamorous, the concentration of fund management expertise is another crucial element of the City's global importance.

Not only are there many sizeable internationally-oriented UK investment houses based in London, including leading merchant banks like Robert Fleming, Barings Bros and Schroders, but several foreign groups have concentrated their international operations in the UK capital.

American banks such as J P Morgan, Bankers Trust and Bank of America have set up global management businesses in London (Bank of America's operation is actually in the process of being spun off as an independent business to be called Worldinvest).

Similarly, Lombard Odier of Switzerland runs its international institutional client portfolios out of its London office. Now the Japanese securities houses are setting up portfolio management operations, with Yamaichi Asset Management, for example, already established.

London's strength in the field might seem a little odd. After all, much of the money in the global portfolios originates from the US, so American global managers might seem to have advantages. And in Europe the Swiss have just as long a tradition of international portfolio management.

The time zone is an important factor. London is between Tokyo and New York, the two biggest world equity and bond markets, and fund managers can talk to Japan early in the morning and the Americans after lunch.

Global geography is such that it is very difficult for the Japanese and the Americans to talk to each other because their working hours do not overlap. This makes London a more natural global fund management centre but, of course, the same could be said of anywhere else in Europe.

Another vital element is the existence of a "critical mass" of fund managers. Individual management companies can operate from almost anywhere - the Dutch group Robeco, for instance, has run global funds out of Rotterdam for more than 50 years - but it is hard for an isolated management firm to inno-

vate and attract top quality staff. Where several firms exist there is more competition, and individual fund managers can move more easily, giving a better career structure.

In the UK, Edinburgh also has valid claims to be a viable international management centre, and one or two of its management companies, such as Ivory & Sims and Martin Currie, have made inroads into the US pension fund management market.

The Scots argue that a location away from the main markets is a

positive advantage, as it cuts down the volume of obscuring "noise" and encourages clarity of thought and a longer-term perspective.

Yet most investment business these days is conducted through screens and on telephones, so location may not in itself count for all that much unless absence from the London lunchtime circuit could be claimed to be a blessing on health grounds.

Of course, global fund managers do need to travel from time to time, and here the excellent air services from Heathrow and Gatwick are vital (supplemented now by flights to the nearby Continent from the London City Airport).

However, there is less and less need to travel. Many foreign company managements pass through on corporate "road shows" as they attempt to cultivate the global market. And there has been a big expansion in the number of foreign securities firms in London and in the scope of their activities during the past few years.

Highly active markets exist in US Treasury bonds and, to a lesser extent, yen bonds during the hours of 8am to 2pm, when the market tends to shift to New York. The Eurobond market, meantime, is centred in London.

In equities, Seng International, the London Stock Exchange's screen-based trading system, modelled on its domestic market, has been developing rapidly.

There are reasonable out-of-hours local markets in American and Japanese stocks. As for Eu-

ropean equities, the London market can often be better than domestic bourses for trades in leading stocks, partly because liquidity can be better for institutional size bargains, and partly because transaction taxes can often be avoided.

The actual scale of trading in foreign equities in London is not precisely measured. But the Stock Exchange estimates that it has been running at over \$500m a day in recent months for member firms, and the same again for non-members.

So the active international market in worldwide equities on their doorstep could be something of an advantage for London fund managers. But again, with modern communications physical proximity may not be all that important, and indeed almost half the commission revenue earned by London firms on transactions in foreign equities comes from overseas.

One obvious advantage of London is the English language, the international language of business. This is particularly relevant for dealing with American institutional clients, who may be unused to trading directly with foreigners.

Moreover, fund managers in London are able to cope fairly easily with American requirements. They are used to competitive institutional relationships, acquired and maintained on the basis of measured performance.

The Swiss, in contrast, find it hard to adapt to this kind of client. They have concentrated on international private clients, the sort of investors who are as much concerned with security of capital and with confidentiality as with investment performance.

Above all, London is a centre of the right size. It is big enough to generate a large pool of talent and assemble the necessary facilities. But it is not so big that its practitioners become inward-looking.

In the US and Japan only some of the juniors and the specialists interested in foreign markets. The big, profitable business is in domestic money management.

So long as that remains true, London will continue to play a major role in the global portfolio management business.

Barry Riley

WHEN IT comes to foreign portfolio investment Belgium shows mainland Europe a clean pair of heels. The Netherlands, too, restricted by a small domestic stock market, is an active international investor.

But by and large continental Europe, despite the way investment trends worldwide have broadened in recent years, still keeps itself to itself.

Figures for non-domestic investment by private sector pension funds show that Belgium put 30 per cent of assets abroad in 1986, while private pension funds in the Netherlands pumped 10 per cent of cash-flow across the border.

In striking contrast, pension fund managers in the bigger European economies of West Germany and France rarely strayed from home, content to preside over miserly foreign portfolios of 4 and 2 per cent respectively.

There are all sorts of reasons for this level of diversity, some wholly logical, some less so. The answers are partly to be found in fundamental restrictions like currency considerations, or, as with France and Italy, exchange controls.

Other influences - both feeding foreign investment flows and impeding them - have more to do with tradition and habit.

Not that there is anything wrong with keeping portfolio investment at home, if the risks are balanced and the returns competitive. And investment xenophobia is not in the least restricted to Europe. Last year private pension funds in the US put just 4 per cent of their assets abroad, less than their counterparts in Switzerland where the ratio was 5 per cent.

Basing conclusions on pension fund investment naturally restricts the overall picture. Pension funds are far and away the heavyweights in the fund industry, but they are by nature among the more conservative institutions. Mutual funds and insurance companies in Europe, as elsewhere, tend to be much more adventurous.

That said, however, it is difficult not to conclude that international portfolio investment within mainland Europe is a mostly a fledgling business. Despite the recent dramatic upsurge in stock market trading volumes, the heavy flow of new issues (driven partly by privatisation) and moves to deregulate and make stock markets more freely available, most financial centres within continental Europe remain inward-looking.

Stock and bond markets right across Europe, from Oslo to Vienna, have from time to time received massive injections of international investment money, boosting trading activity and buoying securities prices. Stock market turnover in Italy between 1982 and 1986 jumped by a factor of 16, while in France

Continental Europe tends to keep itself to itself

A fledgling business



Stock market turnover in Italy jumped by a factor of 16 between 1982 and 1986

over the same period house dealing volume rose from \$7bn to \$60bn.

But there is very little evidence of European financial centres being seized by the same enthusiasm for foreign investment. Outlets of funds have in general been trickle at best in countries as diverse as Norway, Denmark and Italy international pension fund investment is unknown, and is barely breathing in France.

Leaving aside physical barriers like exchange controls, perhaps the most important influence on international investment is the size of the local institutional funds market. It is no coincidence, for example, that the Netherlands private sector pension fund industry last year could muster assets of around \$85bn, almost twice that of the \$45bn of West Germany. French private pension fund assets totalled a mere \$12bn.

The level of domestic investment muscle has to be measured against the size of local stock markets. In West Germany the equity market alone is two-and-a-half times larger than its Dutch counterpart, and the German bond market is several sizes bigger still.

Thus Dutch institutions, backed by a heavy flow of investment premiums, have partly been forced to look beyond their national boundaries and to wider

portfolio opportunities. The signs are, though, that modern portfolio theory - essentially the need to spread risk - is having an increasing impact on a number of investment communities. Held in place by their ease of telecommunications, global stock markets are here to stay, and as Europe's economies become increasingly interdependent there is little doubt that - eventually - investment funds will flow freely from one bourse to another.

For the moment the trend of international portfolio investment may have received a setback. The recent collapse of share markets around the world may have led some fund managers to rethink strategies. After all, the market downturn in the bigger investment centres like New York and London has been no less traumatic than in, say, Stockholm, Madrid or Zurich.

Arguments about greater liquidity and competitive dealing costs may count far less when the bull is instantly replaced by the bear.

The turmoil in the foreign exchanges is also keeping some fund managers looking to home markets. In the two years from 1984 to 1986, US shares rose by more than 40 per cent, but the weakness of the dollar meant that it just about stayed put in Deutsche Mark terms; and so far this year Wall Street will have performed even less impressively for German fund managers.

Jeffrey Brown

Offshore funds

Islands gain in popularity

OFFSHORE INVESTMENT originally developed in the US, when it became clear in the early 1960s that investing in the right location geographically could save the investor from heavy taxes and prying eyes.

The offshore industry was built on the backs of asset anonymity and economy. It caters for anyone who isn't regularly resident in his own country, pays tax and wants some degree of privacy in his financial affairs.

During the oil crisis in the 1970s and the subsequent development of business in the Middle East, UK workers took to the extensive way of life in the Gulf. High earnings and tax efficient investment planning made a lot of people richer than they had ever been before, and London investment houses identified new financial needs to cater for.

The personal finance side of offshore investment represents only a tiny proportion of offshore business. As the investment companies invented increasingly ingenious schemes to help their clients avoid paying tax and exploit their status as expatriates, the local tax authorities became equally determined to clamp down on them.

As with most businesses that develop quickly, the offshore industry was initially prone to the dubious dealings of opportunists. A few spectacular failures, followed by a lot of subsequent hard work and legislation, has brought the industry up to its present respectable standing but the image of lotus-eaters banking on palm-fringed beaches still clings to the farther reaches of the offshore empire.

An offshore fund is an open-ended investment fund. The investors are the shareholders, and the management company has the power to create or redeem the fund's shares on demand.

One step further from this is the umbrella fund, which is a collection of funds under the same "umbrella". The advantage of this to the investor is that he can switch from one fund to another within the umbrella without making a realisation for tax purposes and without incurring heavy switching charges. For the management group it is convenient for administration.

The disadvantage for the investor is that, to benefit from the selection of funds available, he has to commit a fairly hefty sum to one management group, breaking the "never put all your eggs in one basket" rule of investment.

For the UK investor, UK income tax is only charged on the dividends received as long as the fund has distributor status. Distributor status, which also defers capital gains tax, is only awarded at the end of the year. If a fund fails to obtain distributor status, then its investors will be liable for the back tax. This is a neat "no free lunch" way for the UK tax authorities to keep the management groups on their toes. Too many ingenious tax dodges and the fund may find, too late, that it has a problem.

Some management groups have deliberately avoided establishing an umbrella fund, because of fears that, if one of the funds loses its distributor status, then the whole lot goes.

The offshore centres most immediate to the UK resident are the Channel Islands and the Isle of Man. An hour from London and blessed with constitutional independence from the UK, the Channel Islands represent, historically at least, one of the most secure and well-regulated offshore financial centres available.

Their only problem is their popularity. The few square miles in the English Channel are packed with around 400 funds and over 40 management groups. It is estimated that Jersey alone handles over \$4bn of investment, around 40 per cent of its GDP. Every square inch of available office space is packed with fund management groups.

The Channel Islands are busy bringing their legislation on in-

vestor protection into line with the UK's Financial Services Act. They will then apply for designated country status under the FSA. Once that is achieved, Channel Island-based companies will be able to compete with other companies all over Europe.

The Isle of Man is overshadowed by the more famous Channel Islands, but it has a growing reputation as an offshore centre, particularly in offshore life products. Insurance linked investment offers the expatriate investor a convenient way to transfer his funds back on-shore if he plans to return to his native country.

All the major offshore insurance companies maintain strong links with their parent companies back home. When the client goes home, his funds go with him and maintain significant tax advantages.

The lack of space on the UK's Islands has made many manage-

ment groups look over the water for a centre for their offshore activities. Luxembourg has experienced phenomenal growth recently as an offshore centre. It is far from a tax haven for its residents, who pay rather high taxes to live in this Grand Duchy wedged between France, Belgium and Germany. However, next year it will pass its own Financial Services Act which will make it ready for European-wide marketing in 1989.

Holding companies in Luxembourg pay minimal taxes, and there is no withholding tax or capital gains tax for non-residents. Luxembourg is a member of the EC and of the OECD. Japanese individual investors are only allowed to invest in OECD member countries, a qualification that the Channel Islands don't have. Such is the popularity of Luxembourg that there is a backlog of 100 companies waiting for a listing.

There are new offshore centres bursting on to the scene. Madeira is opening as a free port and tax haven. Dublin has just announced the formation of a tax haven and free port. Geographically, these can pose a challenge to the traditional Caribbean based funds.

After the second world war, many of the western Atlantic colonies found that their traditional sources of revenue were severely cut by exchange controls and tax laws. Bermuda and the Bahamas promoted their position within the Scheduled Territories Agreement, meaning that sterling could be freely transferred to the islands. This, combined with their financial legislation, largely based on the UK, and their access to US investment opportunities have made them thriving offshore centres.

Beverly Chandler
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INTERNATIONAL FUND MANAGEMENT 6

Passive management

Global indexing eases the path overseas

"YOU NAME it and we'll track it," is the slogan of one international passive manager as indexing moves in earnest on to the global scene amid an explosion of new products and new indices.

In the background is the increasing acceptance by US pension plan trustees that they should place significant proportions of fund assets overseas. Excellent relative returns achieved by foreign portfolios during the past two years of dollar weakness have underlined the appeal of diversification. The "prudent man" criterion encourages trustees to move funds abroad, but at the same time they are seeking a low risk way of doing it. A global index fund is an increasingly popular answer, at any rate as a first step outside US borders.

Several of the big US domestic passive managers have been moving into the global fund management business. State Street Bank is reckoned to be the leader, with more than \$30bn in indexed international portfolios, and other banks like Wells Fargo and Chase are also prominent in the field.

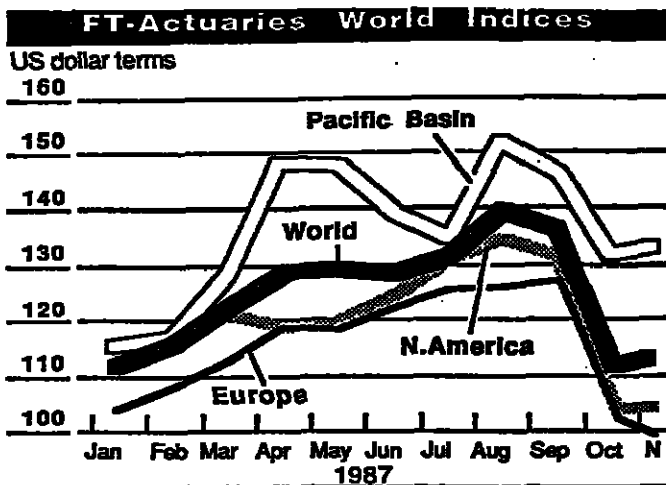
In London, too, several US and British banks are offering global index products, including Bankers Trust and two UK clearers, NatWest and Barclays through their investment management offshoots. Generally speaking, the London merchant banks are much keener on active rather than passive management although Baring Brothers has developed a specialty in this area.

The appeal of global indexing is very much the same as the attraction of domestic index matching in the US. It is a simple and economical approach which satisfies certain minimum objectives.

Just as many US institutions became disenchanted with the domestic failure of most of the active managers to beat the Standard & Poor's 500, despite the payment of substantial fees, so the funds have doubts about the abilities of global active managers.

Many have in the past three years badly underperformed the most widely accepted yardstick for non-US global equity performance, the Morgan Stanley Capital International Europe, Australia and Far East Index.

Much of this underperformance



relates to Japan, where foreign managers have been scared off by the high ratings, and have become seriously underweight, quite apart from tending to pick the wrong stocks in any case. There are, however, also technical objections to the MSCI-EAFE Index, because it includes some stocks which are not fully available to foreigners, and because of the distortions which can arise due to cross-holdings among constituent companies.

The funds have doubts about the abilities of global active managers, many of whom have underperformed in the past three years

especially, once again, in Japan. Alternative global index series have been launched, with more said to be on the way. These usually conform more accurately to portfolios actually held by international managers.

They can do this, for instance, by taking on board the notion of "investability," that is, that constituent stocks must only be included and weighted in relation to the ability of foreign investors to buy them.

The new FT-Actuaries World Index series has become popular among some passive managers, although it was launched only last March.

Its relatively large number of constituents - some 2,400 against around 2,000 in the MSCI World

Index - might seem to count against it, but it is possible for the index trackers to take short cuts.

For instance, Mr Lindsay Tomlinson, of Barclays de Zoete Wedd Investment Management in London, says he can offer a segregated cost-effective global index product to a UK institution wanting to invest as little as \$10m.

This would use futures contracts to obtain exposure to the extent of around 40 per cent each to the US and Japanese equity markets. The contracts would be respectively the Standard & Poor's 500 stock index future traded on the Chicago Mercantile Exchange and the Nikkei 225 contract traded on Simex in Singapore (but not yet traded in Tokyo). These would be topped up with a directly invested portfolio of some 70 stocks from five European countries, namely Germany, France, Italy, Switzerland and the Netherlands.

The result is claimed to be a simplified global index fund capable of tracking the FT-Actuaries World Ex UK index of 2,063 stocks with a volatility of no more than 3 per cent a year.

For a minimum investment of \$25m Mr Tomlinson can put together a broader portfolio of 400 stocks covering 18 national stock exchanges. "It encapsulates all the markets of any significance," he claims. This will track the index to within 1 per cent.

At Bankers Trust Investment Management in London Mr Mark Edson, the quantitative manager, is running global index funds based upon the FT-Actuaries indices for two clients. His formula involves 181 stocks together with futures contracts.

County NatWest Investment Management is also active in the field, and scored something of a breakthrough in international index fund management a few weeks ago when it set up a \$300m fund in Tokyo for a pension fund client. This fund is designed to track the FT-Actuaries Japan Index.

In the US, Merrill Lynch has launched a mutual fund matched to the GAS 100 Index of 100 leading non-US stocks devised by Global Analysis Systems, a London firm of investment consultants. The GAS 100 Index is claimed to track the MSCI-EAFE Index to within 1.5 per cent.

A refinement of the index fund approach is the active/passive strategy, which involves taking strategic country weighting decisions while opting out of stock selection by investing only in national index funds.

The logic behind this is argued to be that while major stock markets are efficient in terms of individual stock pricing, and so there is little opportunity to make enhanced returns by stock picking, much greater inefficiencies can be exploited by switching between markets.

Baring, for instance, is adopting this approach with its International Active and Passive Fund, and BZWIM has developed a roughly similar product.

The extraordinarily volatile markets of recent weeks have provided severe laboratory tests for some of these new quantitative products. They have at times had to cope with unreal prices, closed exchanges and distorted futures markets.

But if they manage to weather this critical period, successfully the future could be bright.

Barry Riley

Active management

Logic says analysis will achieve good performance

FEW GLOBAL fund managers have yet found a consistently successful formula for beating the Morgan Stanley Capital International World Index, the most widely used yardstick for assessing global equity performance.

According to figures produced by consultants Frank Russell International, the average global fund has underperformed the World Index by about 4 per cent since a year over the past five years.

So it is up to active managers to justify their high activity rates by improving their performance, or the passive managers of index funds could start to make serious inroads into the market place.

There is no shortage of different management styles on offer. Compared with domestic funds, global portfolios offer at least two extra dimensions for exploitation, currency and country weighting (though the two elements are not entirely independent).

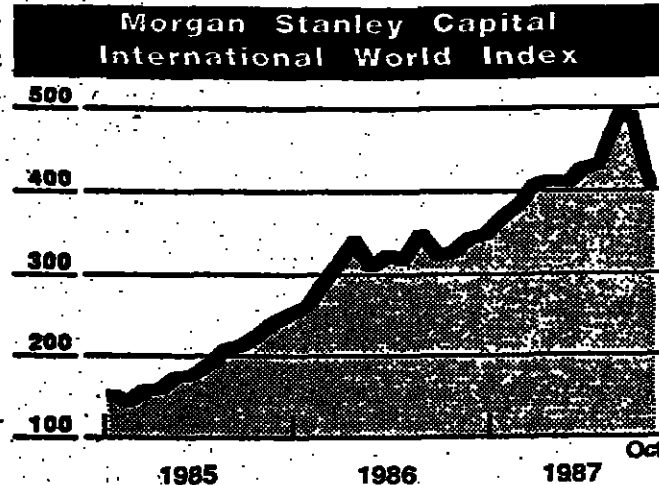
It is, of course, possible to view global management simply as domestic management on a wider canvas. This applies to the "bottom up" managers who focus their attention on picking stocks.

To take one prominent example, for many years Sir John Templeton has run his international funds from the unlikely base of Lyford Cay, Grand Bahama - a palm-fringed playground for millionaires - simply on the basis of picking undervalued stocks.

He became an international manager because he refused to recognise the investment significance of national borders at a time (the 1950s) when almost all US money managers were perfectly content to remain at home.

He became a pioneering foreign investor in Japan when he realised that at that period the ratings of stocks in Tokyo were extremely low compared with those on Wall Street. Now the reverse is true, and Sir John took his profits in Tokyo years ago and moved on. His gains were large even if his exit-timing was not perfect.

Other, bigger, operators such as Fidelity, of Boston, and Capital Group, based in Los Angeles, have implemented largely the same value-oriented strategy.



The logic is that if you analyse value in the correct way, wherever you find it, you must eventually achieve good performance and other factors such as currency swings or stock market fashions will cancel out, at any rate in the long term. It must be emphasised that this strategy is not for short-termers.

Country weightings, on this approach, simply develop naturally out of the basic stock-picking decisions, although probably

managers would apply some overall limitation, for risk control reasons, to the exposures to individual national stock markets.

Other managers, however, take a diametrically opposite view and focus entirely on macro factors. This "top down" approach involves the formulation of an economic and financial model and its use to design what, in theory at least, should be an optimal portfolio.

One of the most successful global managers using this style in the past year or two has been Bank of America Investment Management International, a London-based unit of the Californian bank (though in fact BA Investment is currently subject

which can influence performance. Such an approach will seek to ensure that the macro-analysis feeds back into the individual stock buying decisions of specialist fund managers. For instance, if it has been decided that the yen will appreciate, the Japanese manager will be expected to buy domestically-oriented rather than export-based stocks.

But usually care is taken not to stray too far from the standard asset allocation. This is partly a question of prudence: many managers are, for example, unwilling to sell a potentially weak currency forward to a greater extent than assets denominated in that currency are held in the portfolio.

Any greater element of currency trading would, it is argued, amount to speculation rather than conservative hedging. "We are investors, not speculators," is a plausible slogan, although the theory behind it can be questioned.

There are good reasons for sticking to a low-risk approach, especially when stock markets around the globe have been moving with the extreme volatility displayed in the past few weeks.

But some of the reasons for keeping assets widely spread around the globe have been movements in the past few weeks. The objective global view is unlikely to emerge in these circumstances.

It happens all too often that, given the very high costs involved in international fund management, this diversified global approach fails to generate returns sufficient to beat the index on a consistent basis. The active managers still have something to prove.

Barry Riley

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INTERNATIONAL FUND MANAGEMENT 7

Types of manager

Single office versus the world network

DOES THE global manager need to be near the action or far away from it? Does it do better to have a single office, or a chain of branches tapping information around the world? There are wide differences of view, and the implications in terms of performance are far from being clear-cut.

Take, as one extreme, the case of Robeco, the Rotterdam-based investment group which has been running its flagship Global Equity Fund (an open-ended investment company) for more than 50 years, and in recent years has added Global Bond and Real Estate funds.

Robeco is a firm believer in the single office concept. All its fund managers are based in the Rotterdam headquarters on the reasoning that it is easier for them to form a global investment strategy if they are all in the same place.

(The only exception is that it maintains separate property management offices in London and Atlanta for its real estate fund Robeco, since in property the fund accepts that there can be no substitute for on-the-spot expertise).

The choice of Rotterdam is something of an historical accident, but it is defended by Robeco on the grounds that it is easier to take a detached, long-term view from a location which is not itself an active financial market centre.

For its securities funds Robeco is conscious of the need to put together all the elements of its strategy - currency exposure, market weighting and stock selection - in a coherent way which might not be easy if personnel were scattered round the globe.

A similar philosophy is adopted by some of the Edinburgh investment trust groups which have for many years run international funds out of Charlotte Square offices, focusing originally on the US but often in recent years on Japan as well.

Baillie Gifford is an example of a traditional Scottish manager (it is still structured as a partnership) which has expanded rapidly in the past few years on the basis of an international approach.

Its style is refined through regular weekly information meetings and monthly policy meet-

ings. These would be hard to arrange (and could not involve all the staff) if individual managers were located in a large number of different offices.

At the other extreme, Fidelity International, which is based in Bermuda, has offices in London, Tokyo, Hong Kong and other places while its associate, Fidelity Management and Research, is headquartered in Boston and is one of the biggest US domestic money managers.

But this structure reflects a different investment philosophy. Fidelity is a "bottom up" manager, concentrating on stock-picking. One of the group's boasts is that it does not employ a single economist, where other groups

Stock-pickers need their feet, eyes and ears in the local marketplace if they are to have credibility.

have whole teams on the payroll helping to work out asset allocation models.

Obviously, stock-pickers need to have their feet, not to mention their eyes and ears, in the local marketplace if they are to have any credibility. The network of offices also suits Fidelity's retail orientation, in that it needs marketing personnel to sell products in the local markets.

At the level of retail mutual funds, local offices can therefore serve the purpose of generating local investor demand as well as feeding back specialised geographical investment expertise into the global network.

Some of the London-based merchant banks have also opted for the network approach, combining local representation for their investment management operations with other local financial business.

A local base appears to have proved especially important in Tokyo. A group like Warburg, through its subsidiary Mercury Asset Management, has gained tremendously from its direct experience of the Japanese equity market.

Its Tokyo grounding enabled

it, for instance, to avoid the mistakes of many foreign investors who deserted the Japanese market in September last year during a temporary shake-out only to miss the further strong growth in late 1986 and early 1987.

But Tokyo has become a prohibitively expensive centre for all but the biggest fund management companies. Most fund managers cannot even consider the outlays involved in a Japanese office.

And such representation is not essential, for even faster than the foreigners are moving into Tokyo, the Japanese securities firms are spreading out across the world. A comprehensive advisory and dealing service in most Japanese equities is therefore freely available to fund managers in many centres around the globe, including London and Edinburgh.

The Japanese have in this way been catching up with the Americans, whose securities salesmen have long-established international networks. But listed American companies themselves are still well ahead of their counterparts in other countries in their willingness to undertake international "road shows" to promote investor awareness.

London's lively company halls, ranging from the Plaisirs to the Barber-Surgeons, have enjoyed a boom in lunchtime bookings in the past couple of years as local fund managers have been entertained by American corporate representatives travelling the European circuit with their investor relations presentations.

US companies have had to adopt an outgoing attitude because of the competitive pressures caused by the highly decentralised structure of the country's money management industry.

On the global scene the progressive improvements in communications and travel will probably make it less worthwhile for fund managers to maintain offices in a string of expensive financial centres.

Yet the dedicated stock-picker, who is not so much interested in the big picture as in the local gossip, is always going to need to keep his feet firmly on the ground in his chosen national market place.

Barry Riley

Internationalisation calls for more sophisticated measurement

Indices to meet world criteria

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	MONDAY OCTOBER 19 1987				
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield
Australia (91)	159.10	-2.6	140.36	145.98	2.69
Austria (14)	100.84	-1.2	88.97	93.13	2.20
Belgium (48)	108.80	-4.2	95.99	99.75	4.69
Canada (129)	115.10	-9.0	101.54	108.05	2.77
Denmark (38)	118.50	-2.0	104.55	110.28	2.64
France (122)	92.14	-7.8	82.17	86.75	3.15
West Germany (93)	92.03	-5.8	81.19	85.02	2.21
Hong Kong (46)	133.50	-10.8	137.78	133.64	3.63
Ireland (14)	145.37	-5.0	128.25	136.19	3.27
Italy (95)	90.37	-5.2	79.73	85.78	2.16
Japan (458)	147.50	-1.7	130.48	148.24	2.46
Malaysia (36)	152.53	-13.5	134.57	148.24	0.48
Mexico (14)	352.93	-2.3	311.36	370.06	4.56
Netherlands (37)	106.47	-3.5	109.65	101.06	2.94
New Zealand (25)	124.28	-4.1	149.68	150.49	1.80
Norway (24)	169.66	-13.5	125.96	157.22	1.80
Singapore (27)	162.78	-1.5	169.05	160.59	2.99
South Africa (61)	192.64	+2.3	169.05	143.49	2.78
Spain (43)	162.37	-0.6	143.25	115.62	1.97
Sweden (34)	124.02	-6.1	109.41	88.85	1.82
Switzerland (53)	144.02	-10.3	85.66	127.05	3.53
United Kingdom (395)	144.02	-9.0	127.05	92.83	3.99
USA (584)	92.83	-20.0	81.90	105.87	3.11
Europe (922)	116.90	-7.7	103.13	132.80	0.70
Pacific Basin (681)	147.72	-2.0	130.32	122.06	1.53
North America (713)	135.44	-4.1	119.49	93.73	3.91
Europe Ex. UK (617)	94.04	-19.4	82.36	92.62	2.73
Pacific Ex. Japan (223)	100.04	-6.1	88.26	135.74	2.95
World Ex. US (1837)	145.74	-4.5	128.58	122.09	1.59
World Ex. UK (2360)	135.45	-4.1	119.50	110.05	2.16
World Ex. Japan (1963)	116.50	-4.6	102.78	111.37	2.31
The World Index (2421)	118.96	-9.5	104.95	111.64	2.31

Base values: Dec 31, 1986 = 100

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Excluding UK because of trading suspension October 14.

How the FT-Actuaries World Index recorded Black Monday

there is the Salomon-Russell Global Equity Index, amongst others.

International investment performance depends on three main factors: the spread of the portfolio between the various countries; the performance within each equity market; and the currency movement within each market. The FT-Actuaries World Index provides an index matrix covering 23 countries that endeavours to meet each of these three criteria.

First, the weighting of each country is proportionate to that country's market capitalisation, to reflect a global portfolio weighting. Second, the indices are calculated in local currencies, to reflect the performance within

each country, and Third, the indices are also calculated in common standard currencies - sterling, US dollars and yen.

The stocks used in the indices are those freely available to international investors. Stocks that can be held only by local investors, or where the vast majority of the shares are tightly held, are excluded.

The calculation format of a weighted arithmetic average means that it is a straightforward process to combine the indices of various countries into regional indices. However, to provide a more complete service the matrix also quotes 10 regional indices most likely to be used by investment managers.

While this development repre-

sents a major advance in global performance measurement, more is required. There is no simple means of assessing global performance measurement.

The weighted arithmetic average construction replicates the movement in a closed end portfolio where investment income is fully distributed; for example, investment trusts. Most portfolios are open-ended, such as pension funds, life assurance funds and unit trusts: money is continually coming into the fund, and investment income is usually reinvested.

The need is thus for a total return index, which will at least reflect income automatically. Yet even local indices do not provide this facility. The main UK performance index - the FT-Actuaries

series - has only recently provided a cumulative adjustment that enables a total return index to be calculated.

There is now a need for such a facility to be provided on the FT-Actuaries World Index, which the policy committee supervising the series is investigating.

Portfolios are not normally confined to equities. They often include bonds and real estate within their assets. As yet, there is no really suitable index for these investments on a global basis. This development is likely to come once the equity indices have been operational for some time.

The other major problem is investment risk within an equity portfolio. The indices, and indeed much of the portfolio performance figures produced, assume that all stocks carry the same investment risk. Showing the investment return on a portfolio only gives part of the overall picture to investors or trustees.

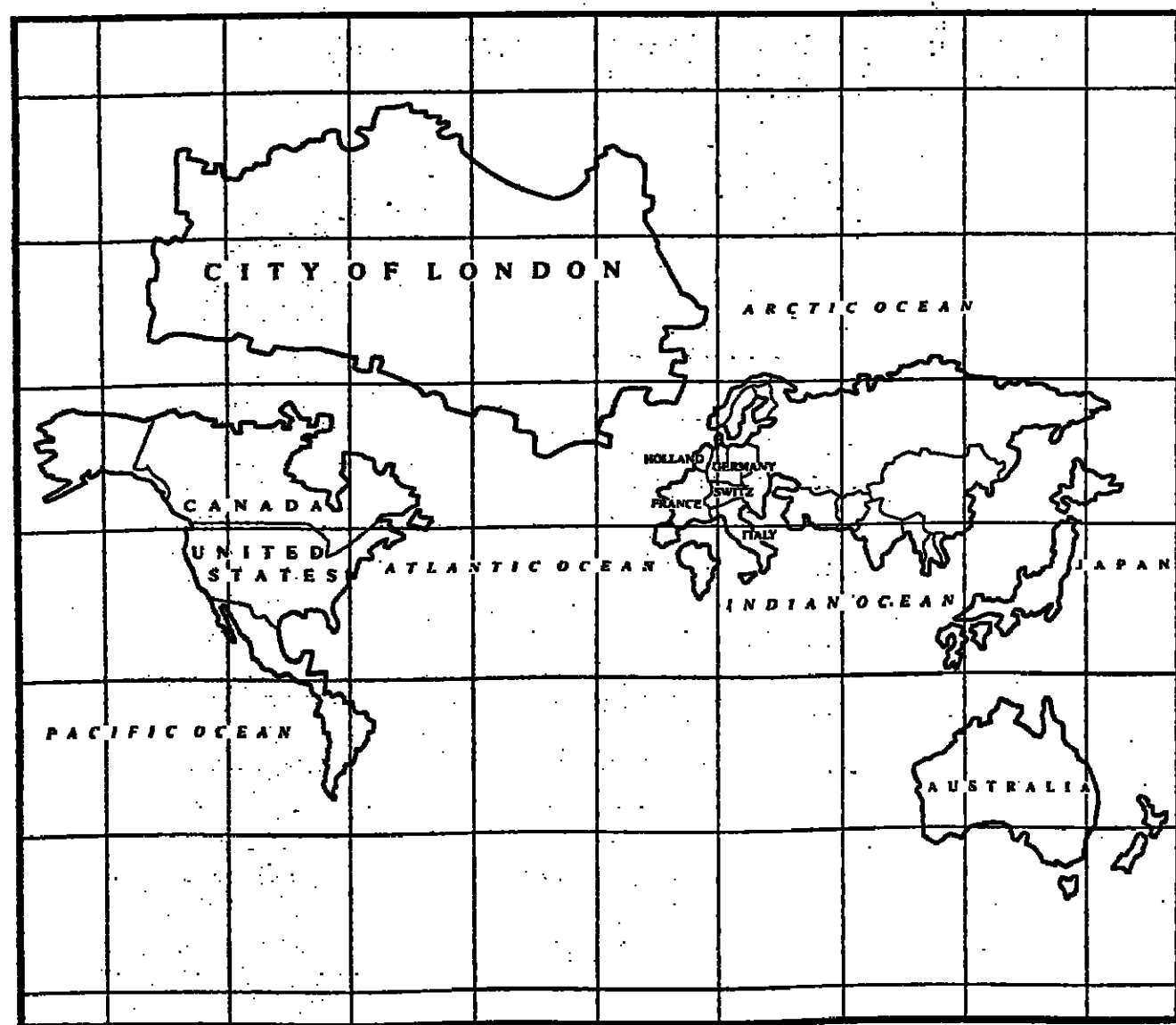
Considerable research has been done by US analysts in performance measurement into the concept of risk and its measurement. However, UK analysts are wary of the basis of risk definition on which the US research is based. Investment risk tends to be somewhat subjective, and a numerical measurement can imply a degree of precision that does not exist in practice. Nevertheless the UK analysts are aware of this problem and of the need to develop their techniques to incorporate a risk factor.

While stock market indices provide a useful and easy-to-assess benchmark, investors and trustees tend to be far more interested in how their fund has performed against other similar funds. So performance measurement firms, at least in the UK, tend to create their own investment universes from the various portfolios of their clients; and this is used as the norm against which individual portfolios are measured. However, the construction of such universes takes time. The firm needs to collect sufficient data from clients before it can commence.

The use of performance measurement has developed in the UK largely in connection with pension funds, followed by analysis of investment trust performance. Life funds do their own in-house measurements, but to what degree of sophistication is not known. They certainly do not use outside firms.

Eric Short

Some fund managers have a distorted view of the investment market.



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INTERNATIONAL FUND MANAGEMENT 8

Research: the most common criticism is that, during the bull market, it shifted to a shorter term perspective

The crash will mean closer scrutiny of fees

WHAT IS research - and what is it for? The question may seem idle, in an international investment community which suffers from a surfeit of economic forecasting and security analysis. There is so much research about, some might say, that fund managers should have no difficulty finding what they need. In London, perhaps 50 to 60 stockbrokers' circulars covering just UK equities land each day on the doormat of Legal & General, the life assurance group. And in the US, the number of brokerage houses offering research has swollen to such an extent that one company chosen at random, Continental Corporation, the property/casualty insurer, found it had 200 analysts on its mailing list. But the global equity market crash of October 1987 is prodigal fund managers to look more closely at what they get for the commissions and fees they pay to securities houses.

One argument is that the long worldwide bull market in equities, which began on Wall Street in August 1982, slowly undermined old-fashioned fundamental analysis. In a raging bull market, it was easy for stockbrokers' institutional equity salesmen to shift big lines of stock without a long analytical story to tell their clients. "Fund managers were saying: don't tell me about your earnings forecasts - just tell me about the price," says the head of research at one big London stockbroker. But in the aftermath of London's Big Bang, a year ago, there have been signs of a change in attitude among British institutional investors. An FT survey recently showed that 31 per cent of institutions felt that the quality of research had worsened since Big Bang. The most common criticism voiced by fund managers is that research shifted during the bull

market to a shorter term perspective. More and more brief research notes are being put out tied to recent company results, while there are fewer detailed reviews of a company's medium to long term prospects, they argue. If the mood was already changing - with some institutions demanding a return to more traditional, in-depth, company analysis - then the events of October may have hastened the change. In a long "bear squeeze", investment decisions will demand a longer view of prospects for companies whose share prices may be highly volatile in the short term. Analysts will come into their own again now," says Mr Chris Clarke, head of research at Scrimgeour Vickers, the City-owned London stockbroker. "If they've slipped a bit, it was because of the bull market."

But if their needs are to be met, then the suppliers - the securities houses or, in the US, research boutiques - may need to do some fundamental re-thinking about how their research should be organised, what it should cover and how it should be packaged. Fund managers' wants and needs differ considerably, however. Take, for example, a British institutional investor with a distinctive style: Scottish Amicable, the Glasgow-based life assurance company. Its needs are equally distinctive. It has 1,000 securities worldwide in one or other of the 40 separate portfolios that it manages, and which include client companies' pension funds as well as the group's own policyholders' life funds. So it has 14 analysts of its own, just covering UK equities, and making company visits. The question has to be: what does a company like this, with in-house specialists, need from outside that it cannot provide itself?

One possibility is suggested by Mr Graeme Knox, its investment manager. "We have moved into small company investments, and we find they are still not very well-researched," he says. While Scottish Amicable has the resources to do much of the work on its own, that would not be true of a smaller institution that was trying to take the same tack. Yet, in fact, surprisingly few British stockbrokers since Big Bang have made a point of trying to meet this kind of need by marketing themselves on the strength of their research into smaller, regional companies. One example of a broker that has done so is Henry Cooke Lumsden, based in Manchester, which publishes regularly a useful bulletin on companies based in north-western England. But HCL is a somewhat isolated case. Another deficiency in the research is the lack of interest rates, currency movements and

matters a lot when foreign companies and economies are involved, and the fund manager has to rely more on an outside source of research. For example, Mr Knox says: "The consensus forecast for US industrial profits said they would be up 25 to 30 per cent in 1988. As it is, that is going to be far wider of the mark. So what did the analysts get wrong?" Self-criticism may be too much to expect of an analyst - but one possible solution suggested by Mr Simon Maclean, of London & Manchester, the Exeter-based life assurance group, is that analysts should provide more "sensitivity analysis". In other words, instead of just giving a bare earnings forecast for a company, they should make explicit all the assumptions - about factors like interest rates, currency movements and

market share - on which it is based. In addition, some British pension fund managers especially point to a lack now of the kind of close study by analysts of company annual reports that used to be routine. "I want to see an analyst showing me if there are any funny resolutions being proposed by a company at its annual general meeting. If the auditors have qualified the accounts, or if they appear to be failing to meet disclosure requirements," says one. A further deficiency, still, is in the range and depth of research on foreign companies available in London. But this tends to vary widely between countries and regions. On the one hand, the Far East is now relatively well catered for. James Capel, for instance, reports retaining the top rating among UK research houses

in 1987, has registered fast growth in its Hong Kong operations, where it has one of the territory's leading research teams and extends into more exotic areas such as the Philippines. European equities remain far less extensively covered by London-based analysts. One very noticeable trend in the last year has been that stockbrokers have perceived this and are driving harder than previously into Europe. Kitcat & Aitken, for instance, has been advertising in the Institute of Actuaries' appointments circular for linguists to fill jobs following European financial shares. Mr Clarke of Scrimgeour Vickers says his firm has targeted 140 European stocks for research. "Up and running, we already have about 30," he says.

Nick Bunker



The crash of '87: a New York stock trader at the end of another dismal day



Clarke analysts' how...



Knox: if they're self-critical

Accounting standards

Seeking a common tongue

AMBITIOUS ATTEMPTS to determine the financial world's Tower of Babel have a long way to go. Companies, analysts and securities regulators agree that the plethora of national accounting languages is not helpful. For companies, the task of complying with different reporting regimes is an unrelenting burden. Companies and analysts are sceptical about what can be done about this. Finding common standards for financial reporting that are acceptable around the world is a task of Herculean proportions, they say. But securities regulators are more sanguine. Earlier this year they put their weight behind a project which, if it is ever completed, will release some companies from the need to prepare their accounts in several different forms. The task has been taken up by the International Accounting Standards Committee. If it can come up with accounting standards that are good enough, securities regulators have promised to recognise foreign companies' accounts drawn up in accordance with them rather than national accounting conventions. This means that, say, a British company seeking listings in Tokyo, Frankfurt and New York would need to produce only two sets of accounts: its usual British ones, and a reconciliation to IASC standards. At the moment, it needs to produce a reconciliation to each country's standards. Companies claim, though, that this is not simply a matter for the accountants. Running a business and reporting its figures are not totally divorced. "You're actually asking managers to change the way they practice," says the manager responsible for accounting in one of the

world's largest oil companies. For instance, there are various national accounting rules concerning when oil and gas reserves can be recognised. Changing from one to another affects the engineers as well as the accountants, he says. He is in no doubt about what his colleagues would say if he told them they would have to change their ways to make his life easier. "Go away, dad!" He is pushing ahead regardless. It has been asked to come up with a set of internationally acceptable standards by the International Organisation of Securities Commissions and similar organisations - a weirdly named group whose power on the world securities stage appears to be in the ascendant. The standard-setters and the securities regulators were united earlier this year by the US Securities and Exchange Commission, and told to get on with patching together a deal which would make international share offers easier. The IASC already has a full set of international standards. But the securities bodies have said that two things need to happen: the IASC has to tighten up its rules, and it has to develop standards for specific industries, principally insurance and oil and gas. The committee is prepared to admit that its rules at the moment hardly deserve the name of "accounting standards", since they do not standardise. This is not entirely the IASC's fault. Its secretary-general, David Cairns, says: "Our board recognised that the first thing it had to do was outlaw unacceptable practice." In the process, many of its standards allow a variety of accounting treatments. It has now set up a steering committee to find ways of reduc-

ing these areas of difference. At its second meeting early next month, its members will mull over a catalogue of the most important options that exist in standards at the moment. The paper before them will include, for instance, a reference to the standard on research and development. This calls on companies to charge development costs as an expense in the year they are incurred. It then goes on to say that these costs can be deferred in certain circumstances. It is important issues like this that will need to be resolved. Three options are available. It can eliminate choices to leave only one accounting treatment. It can retain different accounting treatments but define clearly when each may be used. Or it can leave its standards vague but establish what it calls a "benchmark" for international share issues. The benchmark route is likely to be a popular choice. Intricate differences exist in some areas. For instance, the US requires companies to make full provision for deferred taxes, while Britain takes the opposite view. Compromise on such points is essential. The IASC's 14 members (13 countries and a group of analysts), rather than risk failure by squabbling, may look for acceptable benchmarks rather than final standards. Even this will be demanding: it will have to find the highest common denominator, to keep each country's securities regulators happy. Some countries already accept accounts prepared to IASC standards for listing purposes. Britain's International Stock Exchange has gone some of the way to justifying its name by following this route (though it excuses foreign companies from complying with IASC standard

14, which requires companies to publish segmental information). If the IASC is successful, it will give a huge boost to a process that otherwise looks set to progress very slowly. The Canadian Institute of Chartered Accountants encourages companies to disclose if they conform to international standards, a move supported by the Toronto stock exchange. Around 120 Canadian companies have responded. At least three large US companies, including General Electric, do the same, along with a handful of French and Scandinavian corporations. But these offer only faint glimmers of hope for the advocates of international standardisation. Many companies are loathe to report that their accounts fall within international accounting rules if they are not forced to, or if there are no advantages to be had. If IASC standards change in future, and particularly if they become tighter, then companies may find they no longer comply - bringing adverse publicity. Better not to get involved in the first place. An ironic side-effect of allowing companies to report under international standards when raising capital abroad is that it will make the job of local analysts harder. The financial statements of foreign companies are generally translated into the local accounting language. Under the proposed system, analysts will be faced with accounts drawn up to IASC rules - and will then need to decide these into their local parlance. Analysts are unlikely to object, though, as long as the right information is available. The highest common denominator will need to be a very high one indeed to satisfy the analysts, not to mention the likes of the SEC.

Richard Waters

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Fees

Perks from overseas

THE RESULT of the Stock Exchange's abandonment of its minimum commissions scale last year was to end a lucrative, and generally covert, source of income for most pension fund investment managers. It arose from their ability to buy or sell orders from different clients and then pocket the discount for large bargains themselves. In the post-Big Bang world, overseas investments which involve dealing outside the London Stock Exchange have become the most important source of indirect remuneration for investment managers. Many management companies have been able to boost their total fees from pension funds by 50 to 100 per cent through such charges. There are three main sources of indirect remuneration: leading or participating in the commissions paid to stockbrokers in overseas markets; placing funds with in-house unit trusts which charge high fees; and benefiting from perks granted by the overseas brokers with whom they deal. The possibility of some of these charges existing is often hinted at in the small print, but their value is rarely quantified. The widespread use of commission leading for overseas investment was indicated by a recent example, when 11 investment management firms pitched for the account to manage a large pension fund of several hundred million pounds. Six of the managers admitted to some form of commission leading in response to detailed questioning, although none had disclosed that fact in their original fee quotations. Four of the six managers were part of merchant banks or financial services conglomerates; one was a life assurance company; and one was an independent company. Although all six managers said they would, typically, invest only 20 to 25 per cent of the fund abroad, the effect of the commission was to increase their total remuneration (from managing both overseas and UK assets) as

follows: by 40 per cent, 66 per cent, 50 per cent, 90 per cent, to be negotiated, and not specified. The use of unit trusts, for overseas investment, is not as widespread but still common. Although the pension fund assets are not usually subject to the initial charge, typically 5 per cent, that is imposed on private investors, the annual management charge, of typically 0.75 to 1.0 per cent, is well above the explicitly quoted charge. The perks from overseas brokers are rarely admitted, even in small print. But overseas brokers, particularly in smaller markets with fixed commission scales such as Singapore, admit

Continued on page 9

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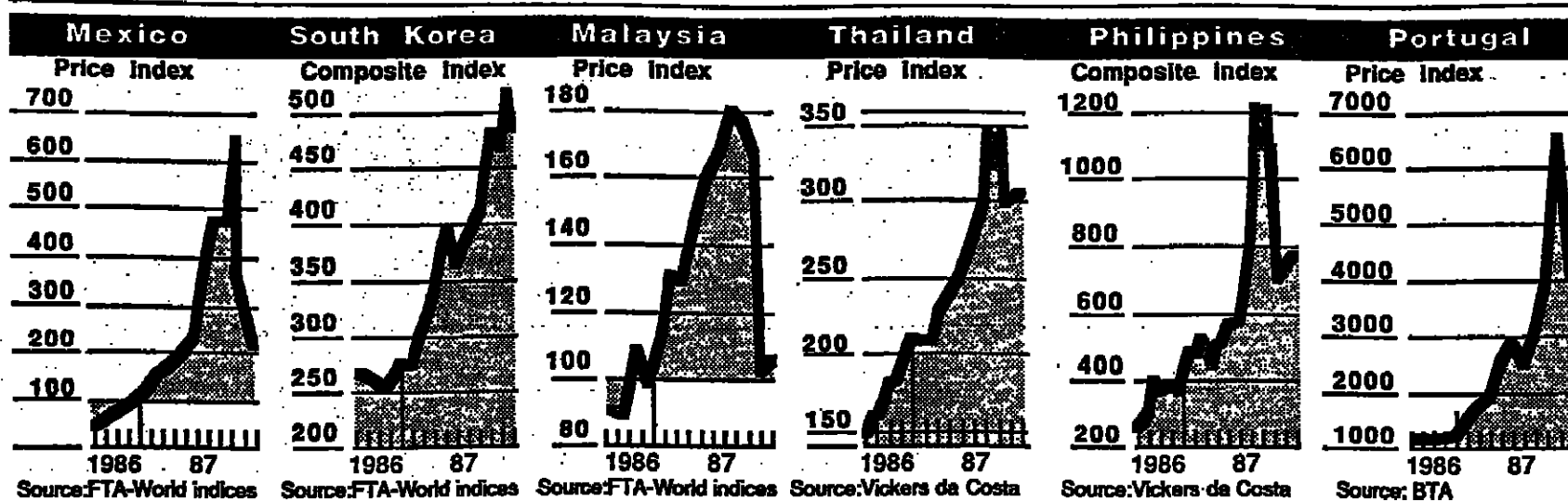
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INTERNATIONAL FUND MANAGEMENT 9



WHEN THE big stock markets were booming, fund managers had every incentive to go bargain-hunting on the more exotic exchanges, if only to diversify their bulging portfolios.

The weight of this investor demand from outside coincided with a widespread feeling among developing country governments that local capital markets were becoming essential for funding development, and that foreign investors were not perhaps, after all, such a threat to national pride and sovereignty. It looked as if the 1980s would be the decade in which equity investment became a truly global habit.

How far Black Monday changed all that, no one can say with confidence. In the short run, the crash had odd effects on emerging markets. Some, like Mexico, burst like balloons. Others, such as South Korea and the Philippines, almost ignored the pandemic around them.

Investors who may have developed an exaggerated faith in junior markets have had to temper their enthusiasm. Yet their experience of *terra incognita* is unlikely to be entirely forgotten. Share prices may be cheap again in the main centres, but the relative value of exotic foreign stocks may not have been materially altered. Factors that at-

tracted investors to wilder shores in the first place - very large GDP growth rates, for example - are factors still.

One of the more serious consequences of the crash - or precipitous correction - may be to interrupt the process of liberalisation in countries where the political debate is finally balanced.

The reaction of junior exchanges was generally but not always, a measure of their insulation from the outside world. The Korea Stock Exchange, for instance, hit an all-time high on Black Monday, fell a mere 2 per cent the next day, climbing back to its peak value in the same period.

Manila, though more open to foreign investment than Seoul, also took the blow coolly, having suffered its real reverse two months earlier on news of the attempted coup against Mrs Aquino's fragile administration.

Smaller markets

Liberalisation at risk

Portugal's two exchanges, fashionable with foreign speculators this year, peaked just before the crash. Since then, the joint index for the Lisbon and Oporto markets has been losing its daily permitted maximum of 5 per cent.

Before the turn, demand for shares from natives and foreigners alike had begun to worry the authorities, who warned that capital gains would be taxed, insider traders punished and a stock market auditor-general established to inspect free-wheeling activities of intermediaries.

Another spectacular performer this year, the Mexican exchange, turned a double backward somersault to record the biggest drop of any. In the fortnight after Black Monday, the market index fell more than half. Total capitalisation went from around \$8bn at the beginning of the month to \$2bn. The reverse set in before Wall Street's, and was seen as a

local correction to a boom that had driven the market's value up at least sixfold in the previous nine months.

The collapse in Mexico was seen by some analysts as an ominous brake on the development of the country's young capital market where, in only a year and a half, the number of small investors had quadrupled to over 400,000. For a crisis of investor confidence in debt-burdened developing countries like Mexico would prevent them raising capital locally for industrial expansion or mega-projects, just at a time when foreign funding is hardest to obtain.

One broker who specialises in emerging markets in Asia said the anti-liberalisation lobby in South Korea was already using the fall of other stock markets in the region, such as Thailand's, as an argument for delaying access for foreign investors.

It can easily be inferred that many political leaders with an ideological distaste for private capitalism will now argue that liberalisation puts young econo-

mies too much at the mercy of international speculators, while encouraging unhealthy gambling instincts in their own people.

There are western analysts, however, who believe that the emancipation of the global investor is a revolution that cannot now be seriously checked. The gyrations of the young exchanges, however magnified by sentiment in New York, London or Tokyo, are to be expected even if they cannot always be anticipated. Speculative frenzies, according to this view, are just part of growing up.

Only about \$1bn-\$2bn of the big institutions' huge portfolios has so far found its way into developing countries' markets, according to studies by the International Finance Corporation, the private sector investment arm of the World Bank. But it forecasts that in the next decade the rate will accelerate to \$1bn a year. By the end of the century, it believes, the \$130bn combined capitalisation of 35 developing country markets could have risen to between \$500bn and \$800bn.

Much will depend on how energetically governments move to regulate their markets and market operators. When better local information and analysis become available, more fund managers may be encouraged to become global investors. At present the field is small and specialist students of political risk in, say, Fiji or even in the Philippines are not plentiful. Those who have the inside track are still sounding sanguine.

People wanted to believe - and were being told - that these markets were moving faster than international homogenisation was the case, says Mr Toby Heale, head of emerging markets at London brokers James Capel. "Nevertheless they are moving towards it - it will just take longer in bad times than it does in good."

Clive Wolman

Christian Tyler

Information systems

Key areas are prices, background, news

INTERNATIONAL FUND managers these days expect the same kind of information and analytic support that is available to their stockbroker counterparts. Modern computing and communications technology makes that possible.

Indeed, just as electronic cash management systems have enabled company treasurers to out-bank their bankers, so electronic information and analytical systems give fund managers the potential to out-broke their brokers.

Some observers think it may be only a matter of time before dealing takes place without broker intervention, pointing to, for example, the Reuters Instant system where it is already possible to place large blocks of shares and deal completely anonymously without fear that the counterparty will default.

Others, while paying tribute to the advantages technology brings, are firmly on the side of the existing system. Mr Richard Hills, for example, a director of Henderson Administration, argues the market would be a pretty dull place if fund managers simply stared at video screens all day.

Henderson had experimented with Aerial, the automated execution system, and given it up as a bad job. "The joke at the time was that computer systems do not give free lunches," he says, pointing out that brokers were the market catalysts, generating activity whether the market was going up or down.

And in international markets, individual contact between manager and broker was essential. "You have to be close to the right people," Mr Hills maintains.

Nevertheless, the choice of technology available to fund managers is dauntingly broad. No single vendor provides all that a fund manager could wish for, although each vendor seems to be using the most advanced technology to give his product a competitive edge.

What do fund managers require? There are three key areas:

● Prices, preferably drawn in real time from the world's equities markets. Quotron, the largest securities price vendor in the US, reckons that any price change in any of the markets from which it draws its information can be displayed on a customer's terminal screen in two seconds or less. Reuters reckons to provide a mix

of securities prices from International Seaq and from markets in 14 other countries among the services on Equities 3000.

● Background information - historical records of a company's financial history, for example, coupled with broker's analyses and the ability to create customised analyses.

● News about companies and the markets which should help to explain price movements.

The choice of technology available is dauntingly broad.

What do managers actually use? Research carried out by Information Solutions in the City of London indicates that Topic, the price dissemination service operated by the London Stock Exchange to display prices from Seaq (Stock Exchange Automated Quotations System) and International Seaq comes top of the list.

Dataseam, a major source of historical financial information came next, followed by the Reuters Monitor Service and Etsel.

Other services quoted were Dogfox, the information service provided by Springour Vickers, and Quick, an electronic window on Japan's stock exchanges.

In the US, Quotron reckons to have 60 per cent of the market for on-line price information, although it is being challenged by ADP, a computing services company which is offering price information through an advanced digitally-based service.

Both Quotron and ADP are hoping to make substantial progress in Europe.

Are managers satisfied with what they get? Information Solutions' survey indicated that fund managers found the technology a considerable blessing during the recent market volatility. "We could not have survived without it," was one comment. "It helped us to compare markets" and "We found it quicker to get the information we needed" were others.

Many believe, nevertheless, that there are too many information and services vendors and that there will be some rationalisation over the next few years.

It has to be said, however, that the sources of information - the world's stock markets - are finite

and that the technology, in the end, is a great leveller. Quotron, for example, has built in a spreadsheet to its Q1000 service - invaluable for fund managers who want to value their portfolio in real time. How long will it be before its principal competitors offer a similar facility?

All the principal vendors - Reuters, ADP, Quotron, Teletext (chiefly in money markets), Telex and Quick - have made substantial technological improvements in the past few months. Reuters with the Equities 2000 service and Quotron with Q1000. What will distinguish one service from another in a few years' time? "Integration," according to Mr Fred Perkins, managing director of Quotron in the UK. The aim will be to reduce the burden on a manager's desk to a single screen - or at the most two - on which all the trading information can be displayed.

Quotron, for example, intends soon to introduce a high definition personal computer on which the screen can be divided into separate windows for separate services. Reuters' most advanced colour terminal already has such a facility. The competition, therefore, will centre on the best integration of market data, news and analytical tools in a single service - not to mention portfolio management aids.

There is, of course, considerable scope for software packages designed to help the fund manager. Expert systems, software programs which help the manager to make reasoned decisions, are starting to make their appearance. An example is Red/5 (Research expert decision/5), developed by a Swiss fund manager and now marketed under licence by Software Sciences, the Thorn EMI subsidiary. It incorporates an expert system called Magic II which offers the manager a range of facilities including portfolio management and access to the most popular information feeds.

Although the information and analytical tools already available to the fund manager seem sophisticated, they are only at the beginning of their development. Fund managers are becoming more professional. They will want their computer-based systems to match their progress.

Alan Cane

Managers' fees

Continued from page 8

to providing UK fund managers with a variety of extravagant entertainment, travel opportunities and "gifts" which have nothing to do with enhancing their investment performance.

The new rules under the Financial Services Act will outlaw such benefits. But it is doubtful whether they can be enforced as

far as overseas investment is concerned, as long as brokerage charges are paid for out of the client's funds rather than by the fund manager.

Mr Nick Fitzgerald, a partner in consulting actuaries Bacon and Woodrow, says there are two objections to these indirect and covert forms of benefit:

"One is the problem of the client not knowing what the costs are. The other is that it gives the manager a conflict of interest. With an overseas leading commission, he may put more money overseas and turn over the portfolio more rapidly."

In the US, fund managers generally incorporate all such costs into a single fee, although overseas custodial charges amount to an extra. As a result their charges for pension funds appear much higher than in the UK. A typical range is: 0.7 to 0.75 per cent per year for the first \$25m

under management; 0.5 per cent for the next \$50m; 0.4 per cent for the next \$75m, and much lower figures thereafter.

By contrast, the explicitly quoted charges of UK funds are only 0.5 per cent for the first \$5m to \$10m, falling, often in stages, to 0.15 per cent (occasionally 0.125 or 0.1 per cent) on amounts above \$10m to \$25m.

The more generous-looking charges are generally associated with covert forms of remuneration for overseas management.

Clive Wolman

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INTERNATIONAL FUND MANAGEMENT 10

For 10 years the benefits of overseas exposure have been promoted aggressively. Clive Wolman asks how far it should proceed

Smaller companies may yet offer potential

LAST MONTH'S simultaneous crash of the world's stock markets has inevitably cast doubt on what was claimed as the most important benefit of international diversification, the opportunity it gives, without sacrificing the returns, to lower the risks from equity investment.

When for several days, Wall Street followed London which followed Tokyo and the Far East, which in turn followed Wall Street, in an unrelenting downward spiral, there was, it seemed, no place to hide.

On the day of the largest fall, Monday, October 19, the only market open to foreign investors which bucked the trend was South Africa. Its counter-cyclical status was assumed to arise from its dependence on the production of that classic hedging asset, gold, and its high degree of political risk, which is not identifiable correlated with world economic trends.

But on the Tuesday, the gold price, after rising on Monday, fell back again, and with it the South African market. Gold has subsequently fallen sharply, particularly in non-dollar currencies. Only bonds and cash have provided a haven.

The only equity markets that have afforded more sustained comfort to investors have been those markets in East Asia, to which access by foreigners is denied or at least severely restricted. The Korean market, for example, has barely fallen at all since October 19.

For the last 10 years, the benefits of investment overseas have been promoted aggressively by fund managers, stockbrokers and pension consultants on both sides of the Atlantic.

Some of their claims, such as that "far eastern countries have much faster growth rates than Britain or America", have been dubious. (The real question is whether or not the prospect of faster growth is already reflected in their share prices).

Their most plausible case has been that investment overseas allows for a much greater diversification of risk without sacrificing any of the potentially high long-term returns from holding equities. The UK economy may perform unexpectedly badly, causing share prices to tumble, but an internationally diversified fund can still feel secure in the value of its foreign holdings.

Such arguments proved effective. According to figures produced by Intersec Research Cor-

poration (a pension fund investment analysis firm based in Connecticut, London and Tokyo), the worldwide total of cross-border portfolio investment by pension and other tax exempt funds rose from only \$8bn in 1976 to nearly \$100bn today. The country with the highest proportion is Hong Kong, with 50 per cent of its pension fund assets in other countries, followed by Belgium with 30 per cent. It is the US, with only about 4 per cent overseas, that has the greatest growth potential.

But when, in the third week of October, the UK stock market fell by more than 35 per cent, the cosmopolitan British investor might well have felt aggrieved that all the other baskets into which he had been advised to place his eggs crashed with similar force.

Does the crash show that the world's economies and financial markets have converged so much as to attenuate most of the benefits of international diversification? And if so, what attractions of overseas investment remain, and what other ways are there for an investor to achieve a greater spread of risks in his equity portfolio?

The defenders of international diversification say that, at a time of such great shock, it was inevitable that all markets would fall together, as they did after the oil price hike of 1973.

But there were substantial differences in the degree of the fall. During October as a whole, whereas the Hong Kong market fell by 45.8 per cent, the Japanese market fell by only 12.8 per cent and the US market by 21.6 per cent (all in sterling terms).

Over the longer term, the professionals who track the relative performance of different markets say that stock markets have continued to diverge substantially in their returns. For example, the securities firm, Wood Mackenzie, regularly produces tables showing the correlations between the equity returns to UK (and US) investors in different markets. A correlation of 100 per cent between two markets means that they always move precisely together; a correlation of 0 means that their movements are completely independent of each other.

For the five years to the end of September, it found that the correlation between the UK and US markets for a sterling investor was 42 per cent, between the UK and Japanese markets it was 19

per cent, and between the UK and Germany it was only 13 per cent. Similarly, for a US investor, the correlation between the US and Japan was only 14 per cent. Although there are doubts about the precision of such statistics, their broad conclusions are accurate.

Nor, surprisingly, does there appear to have been any rise in these correlations over time, according to the figures prepared by Quantec, the New York investment research firm. This is despite the increase of international trade and investment, the growing interdependence of different economies and the globalisation of financial markets.

However, the same Wood Mackenzie figures also show that, at least over the last five years, the benefits to the UK investor from diversification have been extremely limited. The variability of returns in the UK market, which is normally taken as the best indicator of its riskiness, has been only 15.6 per cent, compared with 21.0 per cent for the US market, 25.5 per cent for

Growth of cross-border portfolio investment

Pension and tax-exempt funds (US\$bn)		
Year-end	Total	Of which US
1976	8	0
1980	21	3
1985	65	27
1987 (Nov, est)	150	50
1990 (projected)	300	100

Source: Intersec Research Corp.

Japan and 25.2 per cent for Germany.

The "bottom line" figure, of the ratio of the returns to the risks from investing in equities over this period, shows that a UK investor would have achieved only a slight improvement, from 2.22 to 2.30, by investing in a world index instead of just in the UK.

The low volatility of the UK stock market is the consequence of what has been, since 1982, a period of almost unprecedented financial stability. Over a 15-year period, the advantages of diversifying away from the UK stock market are much more apparent. For a US pension plan, the benefits are more obvious. Intersec

Correlation matrix - equity returns to US investors - five years to June 30, 1987

	US	Can	Aust	Bel	Den	Fr	Ger	Gr	Ir	Italy	Japan	Nor	Neth	Port	Spain	Swed	Switz	UK	West	World	Capital
USA	100	72	-5	25	33	34	12	19	43	30	11	13	34	44	17	-6	14	24	41	78	
CANADA	72	100	-3	23	35	29	5	10	48	36	4	17	36	46	34	-6	11	7	40	65	
AUSTRIA	-5	-3	100	36	18	48	65	30	28	9	19	20	46	21	-15	11	14	-9	44	54	
BELGIUM	25	23	36	100	42	61	52	48	54	48	30	36	54	57	5	13	41	9	73	54	
DENMARK	33	35	18	42	100	38	35	27	43	36	14	15	45	36	16	0	22	14	48	44	
FRANCE	34	29	48	61	38	100	52	58	50	34	47	34	58	54	5	14	47	-8	77	64	
GERMANY	12	5	55	52	35	52	100	36	57	26	27	26	74	33	8	20	29	-11	71	37	
ITALY	19	30	45	27	58	38	36	100	36	14	43	46	36	19	-0	19	37	-11	53	43	
NETHERLANDS	43	48	28	54	43	50	57	35	100	45	27	23	58	50	12	22	36	4	71	62	
NORWAY	30	36	8	48	36	34	26	14	45	100	12	33	44	47	37	21	11	36	50	40	
SPAIN	11	4	19	30	14	47	27	43	27	12	100	19	24	36	3	10	28	-18	48	32	
SWEDEN	13	17	20	36	15	34	26	46	23	33	19	100	35	33	26	17	20	14	48	31	
SWITZERLAND	34	38	48	54	45	58	74	38	58	44	24	35	100	48	20	16	31	-8	77	54	
UNITED KINGDOM	44	48	21	57	36	54	33	18	50	47	36	33	48	100	37	13	28	20	63	63	
AUSTRALIA	17	34	-15	8	16	8	-0	12	37	3	25	20	37	100	1	4	15	28	23	23	
HONG KONG	-6	-8	11	13	0	14	20	32	2	21	100	17	16	13	11	100	-4	11	21	0	
JAPAN	14	11	14	41	22	47	29	37	36	11	19	100	31	28	4	-1	2	42	69	69	
SINGAPORE	24	7	-19	9	14	-3	-11	-11	4	36	-18	14	-8	20	16	11	2	100	3	16	
EUROPE INDEX	41	40	44	73	48	77	71	53	71	50	48	48	77	83	28	21	42	3	100	71	
WORLD INDEX	78	65	14	54	44	64	37	43	62	40	32	31	54	63	23	0	66	18	71	100	

Key: 100=perfect correlation between the two markets' returns.
0=complete independence of movements in the two market indices.
-100=one market moves in an equal and opposite direction from the other market.

Source: Wood Mackenzie.

calculates that the optimum overseas weighting of a US-based portfolio is between 25 and 37 per cent.

Suppose, however, that on the basis of such evidence and the experience of the last few weeks, the UK investor rejects the argument that overseas investment means lower risk for the same returns (or higher returns for the same risk). Are there any other justifications for incurring the additional expense and inconvenience of moving money offshore?

The figures mentioned above establish the risk-return ratios for a portfolio that is allocated mechanically between different countries and invested in all the stocks making up the relevant stock market indices in those countries. However, investing across the globe creates additional opportunities for professional investment managers to boost the returns of their clients by choosing the right markets at the right time.

All the performance figures of pension funds, unit trusts and similar investment vehicles testify to the lack of ability of all but a handful of investment managers to achieve higher returns by selecting individual stocks than could have been achieved by passive investment in the entire stock market index. In fact, over

the last four years, fund managers have achieved consistently lower returns than the indices for the UK, US and Japanese stock markets.

But when it comes to switching money between different markets, rather than selecting stocks within those markets, the results are more encouraging. Pension fund performance analysts - in particular Intersec, Frank Russell International, another US firm, and the WM company in Edinburgh - say that their figures show that most professional investment managers have been adding value.

In other words, their switching decisions have yielded higher returns than purely passive investment in, say, all the constituents of the world stock market index. Their figures are backed up by some, albeit incomplete, academic evidence. The underlying explanation is that the relatively small flows of money between different stock markets has allowed pricing anomalies between them to persist.

The other argument for overseas investment is that it is the only way of gaining an exposure to some industries. "You have to go overseas if you want to invest in something like Club Med," says Mr Duncan Fordyce, of Intersec. "Even video cassette recorder manufacturers cannot be

found outside of Japan or Taiwan."

Similar unique investments include the plantations of Malaysia, some kinds of utilities in the US and mining stocks in Australia, Canada and South Africa.

Such stocks might be included in a portfolio because the fund manager believes they offer high potential returns. Their inclusion should also lower the riskiness of a portfolio.

There are, in fact, several ways of making overseas investment a more effective tool of risk diversification. One is by seeking to invest more money in the emerging stock markets of the third world. Some, like Mexico, have become so closely linked to the economies of the developed world that their stock markets have fallen in line with the first-line markets. Other markets, however, in Korea, Thailand, the Philippines, and South America, are likely to continue showing a high degree of independence for some time.

Perhaps the most serious failing of international fund managers in recent years has been to concentrate on the export-oriented and large company stocks in the foreign markets they have wished to enter. Their reasons are first, that they understand such stocks more easily; and second, that these are often the on-

ly stocks with sufficient liquidity to allow them to buy in and sell out swiftly and easily.

The drawback to such stocks is that they are highly vulnerable to trends in world trade and the world economy, and therefore tend to move more in line with the blue-chip and multinational stocks based in other countries. In several stock markets over the last month - for example, Singapore - the sharpest falls have been in such "international" stocks mainly as a result of the heavy selling of foreign investors. The prices of smaller company stocks have fallen much less.

Even in the UK market, over which foreign investors have relatively little influence, the prices of smaller companies have fallen less than the blue-chips. Whereas the FT All-Share Index fell 26.3 per cent in October, the Hoare Govett Smaller Companies Index, which makes allowance for the often slow adjustment of small company share prices because of thin trading, fell by only 23 per cent.

According to Mr Paul Marsh, professor of management and finance at the London Business School, "Smaller companies have shown a modicum of defensiveness, not only now but going back in history during previous

bear markets. There is certainly no basis for the common wisdom that there is a flight towards quality (blue-chip stocks) when the market goes down sharply."

Thus the benefits of overseas investment in terms of risk diversification could be enhanced if investment managers weighted their overseas portfolios more towards small companies and towards industries with a strong domestic orientation and relative immunity from trends in world trade. These would include the retailing, land transportation and utilities sectors.

The other attraction of investing in smaller companies is that they consistently outperformed larger capitalisation stocks in almost every market in the world. Evidence of such outperformance has been collected from the US, the UK, Japan, Australia, France, Germany and Belgium. In the UK, the average outperformance of small companies has been 6 per cent per year over the last 60 years.

The traditional objections of international fund managers to investing in smaller company stocks is that, because their marketability is low and the specific risk of holding just a few is high, they would have to invest in an extremely large number of such stocks. This would boost substantially their research and transaction costs.

A recent paper by Mr Marsh and Mr Elroy Dimson demonstrates that it is possible to track the performance of the HGSC index in the UK, with only a moderate degree of error, by investing in a \$20m portfolio consisting of only about 50 smaller quoted companies with a fairly high degree of marketability. Such a portfolio could be constructed without carrying out any fundamental research into the companies, but selecting them purely on the basis of their risk characteristics, industry sectors and marketability.

There is perhaps potential for investment management houses to run pooled closed-end smaller companies funds for all the world's major stock markets. This would allow pension funds and other investors from around the world to achieve maximal risk diversification by buying and selling into these funds without forcing the managers constantly to expand and contract the underlying portfolios.

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